THE EFFECT OF CUSTOMER DEMOTION ON CONSUMER AFFECTIVE AND BEHAVIORAL RESPONSE IN RESTAURANT LOYALTY PROGRAMS

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ABSTRACT

This study aims to investigate customers' specific affective and behavioural responses following demotion decision by a firm in the context of loyalty programs of the food service industry (i.e., the restaurant industry). More specifically, it examines whether ways to demote customers impact how the customers feel and behave. A scenario-based, experimental study with single-factor, between-subjects design was used in this research. Results show that the absence of information and reminder message prior to demotion lead to feelings of disappointment, whereas the presence of information and reminder lead to customers' feeling of regret. Furthermore, regret prompts customers to recover their lost status through repurchase intention, while disappointment does not. Disappointment, however, leads to switching intentions but not to negative word-of-mouth and complaining behaviour.

INTRODUCTION

Firms around the globe have increasingly committed to implement customer loyalty programs. A report by MarketsandMarkets forecasts an increase of global loyalty programs from US$ 8.6 billion in 2021 to a whopping US$ 18.2 billion in 2026 (MarketsandMarkets Report, 2022). It is evident that firms have concerns about maintaining profitable business relationships with their existing customers. The emerging value of the loyalty management industry drives firms to understand this trend so that relevant loyalty programs can be built. Originally, loyalty programs were largely applied to service providers such as airlines, banks, and telecommunication services, but have increasingly been used in different industries, such as food and beverage, hotel, and others. In fact, loyalty programs are heavily used in the hospitality industry to maintain long term relationships with their customers (Sota, Chaudhry, & Srivastava, 2020).

A lot of research in the domain of relationship marketing and loyalty programs has focused on the impact of loyalty programs on purchase behavior and loyalty (Liu 2007; Dowling 2000; Leenheer, et al., 2007; Yi & Jeon 2003; O'Brien & Jones 1995) and customer retention and share of wallet (Verhoef, 2003; Lewis, 2004). The majority of research in this domain discusses issues of relationship marketing and value provided to customers, focusing on the positive consequence of companies' actions (i.e. prioritized services, reward points, bonuses, privileges, etc.). Very few focused on the possible negative consequences of loyalty programs' policy, such as status demotion decisions, on consumer behavior and responses.

In a hierarchical loyalty program, firms classify customers by defining tiers or levels, which allows customers to identify the tangible and intangible benefits they are entitled to—whether as regular or outstanding purchasers (Dreze & Nunes, 2008). Each level offers certain privileges in exchange for required spending amounts by the customer. Exclusive benefits are offered to those who achieve certain levels of spending. Customer spending correlates positively with tiers (i.e., more spending results in higher status), thus, enabling them to enjoy greater benefits. However, not all customers can maintain their spending level due to various factors. When customers fail to maintain their spending at the required level, consequently they will be demoted to a lower level or tier and then lose their previous privileges as preferred customers. This practice is known as customer demotion. As a status reduction, demotion is not something to look forward to as humans do not like the idea of status reduction, because fear of loss is more powerful than anticipation of gain (see Amos & Tversky, 1979).

Extant literature has examined the many benefits of loyalty programs (Ha & Stoel, 2014; Ma, Li, & Zhang., 2017), positive effects on customer attitudinal and behavioural loyalty (Söderlund & Colliander, 2015, Pandit & Vilches-Montero, 2016; Baloglu, Zhong, and Tanford 2017), retention (Verhoef, 2003), and relationship quality (Lo and Im 2014). Of equally important matter is customer demotion - a common practice in hierarchical loyalty programs. While customer demotion has received greater attention in academic research recently, limited research has examined how status demotion might result in revenge and avoidance behavior (Banik, Gao, & Rabbanee, 2022). Wagner et al. (2009) seemed to pioneer the investigation of demotion decision on customers. They found that a company's decision to demote customers has a negative, asymmetric effect on customers' loyalty intentions. They also showed how firms could alleviate the pain of demoted customers by examining causal attributions and concentrating on two causal dimensions: locus of control and controllability. While limited, literature on customer demotion suggests greater negative effect of demotion than positive effect of status elevation (Wagner et al., 2009); strong intention to switch (Hwang and Kwon, 2016); asymmetrical negative effect on consumers' trust, and commitment (van Berlo, Bloemer, & Blazevic, 2014).

Hwang and Mattila (2018) demonstrated that demotion induced negative emotions, more specifically betrayal and anger, that eventually influenced customer loyalty. Their work extended Wagner at al.'s (2009) study on external cause of demotion that triggered negative emotion, which impacted customer loyalty adversely. Negative emotions come in various forms such as feelings of frustration, anger, disappointment, regret, etc. In emotion theory, research has demonstrated that specific emotions have idiosyncratic behaviors along with behavioral tendencies associated with them (Frijda, et al., 1989; Roseman, et al., 1994). While the journey to study the link between customer demotion and negative emotions has started, there is still limited research on how specific customers' negative emotions lead to specific behavioral intentions.

The positive growth in the global travel and tourism industry has led to the expansion of hospitality and food service industry in the Asia Pacific region. For instance, the increasing number of restaurant chains and foodservice junctions has put pressures on the hospitality industry to improve services and quality to maintain their competitive position and customer base with the loyalty programs. A 2019 USDA report of the food service industry stated that Indonesia was the largest foodservice market and consumer base in the Southeast Asia region (USDA Report, 2019). Indonesia's food service sector grew by 4.2% between 2015-2018 and was projected to grow by 3.4% by 2019-2022. Supported by the relatively young demographics (i.e., 59% population being in the productive age) and dining out lifestyle that has been the predominant social activity in Indonesia, the restaurant industry has continuously been the largest foodservice subsector in Indonesia (Agriculture and Agri-Food Canada, 2019). This indicates that the industry landscape has become more competitive than ever as more international food and beverage franchise players are shifting their focus to Indonesia. Thus, it is a pivotal point for food and service industry players to understand the mechanism and psychology of loyalty programs to consumers and build relevant loyalty programs in the face of steep competition.

Through an experimental study, this research aims to investigate customers' specific affective and behavioral responses following demotion decisions by the firm. More specifically, this research attempts to answer questions of what sorts of specific emotions customers might experience when demoted and how they would respond accordingly. This becomes an increasingly important matter specifically after Nielsen's study indicated that consumer *disloyalty* may become the new normal. For example, more than one third of Indonesian consumers stated they would try new things and half of them, while preferring to stay to the known brand, could be moved to the 'experimental' segment—that is, those who would switch and try other brands (Nielsen, 2019).

This study makes two principal contributions to the customer demotion research stream. First, this study advances the current literature by examining different affective states following customer demotion, which states may drive different behavioral intentions. Second, this study extends the existing body of research in status demotion by exploring regret and disappointment as the resulting negative emotions. In the following section, we outline the research methodology and show data analysis results. Lastly, we wrap up by discussing the findings, managerial and theoretical implications, limitation and future research opportunities.

THEORETICAL BACKGROUND AND HYPOTHESES DEVELOPMENT

Customer Demotion in a Hierarchical Loyalty Programs

The concept of hierarchical loyalty programs was born as a responsive strategy to the need for implementing relationship marketing. Relationship marketing mostly deals with maintaining customer loyalty, satisfaction, relationship commitment, etc. Research in this area tends to focus on examining relationships between customer satisfaction, relationship commitment dimensions, customer retention (Gustafsson, 2005), trust, relationship quality, customer loyalty, word-of-mouth, and expectation of continuity (Palmatier, et al., 2006; Ulrich & Green, 2008). These studies emphasize the importance of strengthening or reinforcing the relationship between the service provider and customers. It is an important emphasis as the very essence of relationship marketing is to build and maintain a sustainable, mutual, strong relationship with the customers. After all, the definition of relationship marketing is "all marketing activities directed towards establishing, developing, and maintaining successful relational exchanges" (Morgan & Hunt, 1994, p.4).

A hierarchical loyalty program is designed to support the implementation of relationship marketing by rewarding customers with exclusive benefits at a certain level of spending. While these rewards drive positive consequences to the firm, loyalty programs also impose 'punishments' to customers, such as customer demotion, who fail to maintain their spending level. This is the dark side of the loyalty programs that deals with firm's actions and decisions that may cause negative consumption experiences for customers. The decision to demote customers has been considered critical as it creates harmful consequences in maintaining firm's relationships with the customers, such as jeopardizing customers' loyalty (Wagner et al., 2009).

Customer demotion is a terminology used by Wagner et al. (2009) to refer to customer status reduction due to the customers' failure in maintaining their required spending levels. Issues of status reduction in a social context have been considered critical in sociology for several reasons. First, status is seen as a strong motivator of human behavior (Frank, 1985) because elevated level of status means owning exclusive rights and benefits that incite envy and respect from others (Csikszentmihalyi & Rochberg-Halton, 1981). Second, people have a motivation to compare their abilities with others (Festinger, 1954) and status serves as a means of comparison. Downward comparison, especially, can enhance one's subjective well-being as it serves people's desire to look better than others (Taylor & Brown, 1988). By comparing with the those who are less privileged, people can improve self-appraisal and self-esteem (Brown & Lohr 1987; Olson & Evans 1999; Wills 1981).

From a marketing and consumer behavior perspective, elevated status in loyalty programs becomes important because status conferred to the firm's best customers is an achieved status—a status that comes as result of customers' effort (Dreze & Nunes, 2008). Achievement is the keyword as it pertains to a reflection of success and superiority and the higher the level of status in the loyalty programs, the more benefits the customers receive. Superior level of preferential treatment in hard benefits, such as rewards, can lead to increases in future purchases (Lacey, et al., 2007). Thus, the loss or reduction of status through customer demotion decision would evoke negative emotions on the customers as they lose both tangible (i.e., physical) and intangible (i.e., psychological) rewards along with the status.

From the perspective of the demoted customers, customer demotion might be seen as part of the firm's service failures. The demoted customers who feel hurt for losing their prior privileges may put blame the firm has failed to serve them so well in the past. However, service failures should be understood as occurrences when service performance falls below customers' expectations (Hoffman & Bateson, 1997). While service failures may occur at all levels of service product, service failures occur mostly on the core service, that is, the basic benefits received by consumers that serves as consumers' main reason to engage in the service encounter (Hess et al., 2003). For example, meals and drinks provided by a restaurant, or rooms provided by a hotel, or on-time flight scheduled by an airline. Prior studies imply the negative impacts of service failures on customers' satisfaction (Mattila & Ro, 2008); and that various specific emotions such as anger, sadness, regret, and the like contribute to dissatisfaction (Mano & Oliver, 1993; Oliver, 1997; Smith & Bolton, 2002). From the perspective of the firm, however, demotion occurs when the customers fail to maintain a certain spending level, which results in the loss of privileges. When the firm fails to inform and warn customers of the potential demotion, then accusation of the firm's failure by the customer is then justified. The firm's failure, however, occurs on maintaining a smooth customer relationship and not so much on failure to provide the core service.

The quality of relationship between the service provider and customers would affect customers' responses to firm's failure (Berry 1995; Goodman, et al., 1995; Kelley & Davis 1994). In fact, customer relationships may play a role as a buffer that can reduce the dissatisfaction as greater tolerance for failure may exist (Berry, 1995). Service personalization, order customization, loyalty cards, membership privileges are all forms of the customer relationship approach. While customer relationship is necessary, it is important to keep in mind that customer relationship is not a core service. Thus, customer demotion should not be seen as a firm's service failure; but rather, as an unwanted consequence resulting from customers' failure to meet the service provider's requirements. Therefore, the perspective of failure in customer demotion (i.e., the customers' perspective) is different from failure in service delivery (i.e., the service provider side). The firm's failure in the context of customer demotion may be seen as its failure to communicate the potential demotion (if any) to the customers.

Regret and Disappointment in the Context of Customer Demotion

While specific negative emotions have been widely researched in the context of service failures, research on negative emotions as the result of customer demotion is lacking. Hwang & Kwon (2016) examined the effect of customer demotion on negative emotions, but they did not specify the specific resulting emotions. As an unpleasant experience, customer demotion may lead to various negative emotions, such as anger, annoyance, to sadness, as classified by Edell & Burke (1987). Anger tends to be related to aggression and hostility (Berkowitz, 1999). Customers' experience of anger is described as "nearly exploding" and "being overtaken by emotion" state (Bougie et al., 2003). On the other hand, sadness is characterized by an act of withdrawal, instead of aggressive action (Shaver et al., 1987). Looking at these samples of negative emotions, we believe that customer demotion does not necessarily cause anger, sadness, or frustrations. This is because customer demotion is not a service failure; instead, customers play a role in allowing the demotion to take place. Again, the perspective of failure differs between service failure and customer demotion. In the demotion situation, customers partially contribute to the loss of hierarchical loyalty status by not meeting the required spending level. The only provider's failure involved in the demotion situation might be the absence of information and reminder messages prior to the demotion decision.

In the attempt to understand the specific emotions triggered by customer demotion, perhaps it is necessary to clarify the nature of the customer demotion situation in the context of loyalty programs. Prior to joining a loyalty program, customers are usually made aware of the program policy. The policy usually includes information on requirements to meet in order to get elevated to higher level of status (e.g., minimum spending requirements); conditions that make customers lose privileged services; time frame (i.e., the period of time required to maintain a particular spending level), etc. This implies that customers have control over their destiny with respect to maintaining their status level. Wagner et al. (2009) mentioned the importance of causal attribution in the implementation of the customer demotion decision; that is, by shifting the responsibility to the customers in order to reduce the negative affect of customer demotion. Causal attributions refer to people's perceptions about who is held responsible for certain events or incidents. These attributions serve as key determinants of consumers' affective and behavioral responses that follow (Poon, et al., 2004). Wagner et al. (2009) introduced design variables of the loyalty program that could shift the locus of control from the firm to the customers: membership condition information and customer spending information. Causal attribution plays a significant role in customer demotion situation. An interesting finding from Koc (2019) in grouping fields of study of service failures found that attribution was the least studied field, and accounted for only 9.20% of over 13,000 papers on service failures and recovery in hospitality and tourism. Thus, there are research opportunities in this area.

Zeelenberg & Pieters (1999) studied the effect of disappointment and regret on customers' behavioral responses toward failed service encounters. They focused on these two emotions because, in line with behavioral decision theory (Bell 1982, 1985; Loomes & Sugden, 1982, 1986) and theory in marketing (see Inman, et al., 1997), these two emotions were most directly related to decision making (Zeelenberg & Pieters, 1999). While regret and disappointment are closely related as negative emotions, there is a difference in the degree of the self-blame (Matilla & Ro, 2008). Regret tends to be related to making bad decisions and thus, instilling a sense of responsibility for the outcome (Zeelenberg *et al*., 2002); but not so with disappointment. Regret can be understood as a negative emotional state that occurs as response to unfavorable outcomes, that could have been avoided had one acted differently (Zeelenberg & Beattie, 1997). Another defines regret as "the painful sensation of recognizing that 'what is' compares unfavorably with 'what might have been'" (Sugden, 1985).

A study by Frijda et al. (1989) showed that regret was different from disappointment in association to the appraisal item of “self-agency.” Self-agency was a construct measured by questions such as: “Were you responsible for what happened or had happened?” On this item, regret scored higher than did disappointment. Zeelenberg, et al. (1998a) found that feelings of regret were greater for those who were responsible for the outcome (i.e., the choosers) than for those who were not responsible. Disappointment, on the other hand, was greater when the negative consequences were seen as the result of a random procedure (i.e., beyond one's control), than of a choice (i.e., within one's control). Clearly, this implies that regret is related to customers' locus of control, in which consumers would see themselves as having a power to control the likelihood of the outcome. Thus, when consumers are aware of the likely outcomes of their actions, they would be more regretful when committing to actions that lead to negative outcomes when they know they could have prevented them. Relating this argument to the topic of this paper, we conjecture that reminding customers about their current situation in the loyalty program would serve as reminder to the customers about their obligations to maintain certain requirement in the loyalty program. It effectively shifts the responsibility to the customers. Considering these arguments, we propose the following hypothesis:

H1: *Customers who receive prior information and reminder before the demotion decision express higher regret than those who do not receive such information and reminder.*

Customers have expectancies when deciding to engage in consumption experiences. When the expectancies are met, customers are satisfied. Conversely, disappointment happens when customer expectancies are not met. In the case of customer demotion situation, it can be assumed that customers may expect clear information from the firm with regards to the decision to demote them. When the firm fails to provide such information, then customers will be disappointed. If regret is derived from comparison between a factual decision outcome and a counterfactual outcome that might have resulted if only one chooses differently, then disappointment is derived from comparison between factual and counterfactual outcome that might have resulted if only another situation occurred (Zeelenberg, et al., 2000). In other words, if the firm does not inform and remind the customers before the demotion decision, the customers might feel disappointed because, unlike the previous case of regret, they do not see themselves as part of the problem. Thus, we propose the following hypothesis:

H2: *Customers who do not receive prior information and reminder before the demotion decision express higher disappointment than those who receive such information and reminder.*

Behavioral Responses of Regret and Disappointment

Dominant behavioral responses to dissatisfaction in the context of consumption experience are switching, complaining, and word-of mouth communication (Oliver 1997; Richins 1987; Zeithaml, et al., 1996). Switching means that customers discontinue services with the provider and switch to another one. Rust & Zahorik (1993) showed that dissatisfied customers were more likely to switch to other providers than satisfied ones. Switching behavior is a fatal situation for the firm because this is the point where the firm loses the customers. Complaining, on the other hand, may not be as fatal as switching behavior. It is an act where customers communicate their negative experiences with the services to the firm (i.e., disconfirmed expectancies). Complaining can be directed either directly to the firm, or to other parties such as consumer protection agencies. Word-of-mouth communications refer to an act of talking to friends, relatives, other customers, and public at large. The content can be positive evaluations or negative evaluations toward a service encounter, consumption experience, product failure, etc. Unfortunately, dissatisfied customers are more likely to engage in negative word-of-mouth communications than to complain to the firm directly.

While regret is associated with choice, satisfaction is associated with outcomes. Therefore, one can be disappointed with an outcome, but regrets a choice that led to the outcome (Tsiros & Mittal, 2000). Thus, regret reflects a sense of personal responsibility of the customers. Further, regret is associated with a tendency to blame oneself for making wrong decision, with a focus on undoing or preventing it from future occasions (Zeelenberg et al., 2000). Because the experience of regret is related to the tendency to blame oneself, to correct a mistake, and to undo the event, experienced regret may associate with or lead to active attempts to undo the unpleasant effects by preventing it from happening again in the future. A study by Zeelenberg & Pieters (1999) showed that regret was more associated with switching behavior. However, Wagner et al. (2009) demonstrated that by shifting the locus of control to the customers (i.e., by providing information about membership conditions and customers' decline in spending level), customers' negative affect decreases and loyalty intention increases.

Rusbult's investment model can be used to predict consumers' behavioral responses following an incident in service transactions. According to the investment model, relationship commitment is not just a function of the relationship outcome value and quality of the best available alternatives, but also the magnitude of relationship investment (Rusbult, 1980). Commitment is said to be strengthened with the passage of time, partly due to the resources that have been put into the relationship by both the firm and the customers. Informing customers about their shortfall in spending prior to the demotion can be seen (by the customer) as an effort or relationship investment made (by the firm) to retain and maintain the relationship with the customer. The absence of information, on the other hand, can be seen as firm's failure to invest in maintaining this relationship with the customer.

Using the regret theory and the investment model to base our hypotheses, we conjecture that when customers are well informed prior to demotion, they will neither complain nor engage in word-of-mouth communication because doing so may jeopardize the customers' pride. Pride is an enhancement to an individual's ego identity when she/he feels a sense of accomplishment through her/his own action (Lazarus, 1991) and thus, is related to self-esteem and self-applause (Davidson, 1976). Customer's pride is also found to have a constructive influence on the tendency to spread word-of-mouth and repurchase action (Soscia, 2007). Consequently, when the demotion is perceived as the result of the customer's own action or actions, her/his pride is threatened, which may drive her/him to protect it by not complaining and telling others about the demotion experience instead. Also, we suspect that regretful customers may not engage in switching behavior; instead, they may try to reverse the situation by keeping up with the required spending level. A recent study by Jin, Pietro, & Fan (2020) revealed that customers' perceived controllability over a failure situation affected subsequent behavioral intentions. They found that as customers perceived that they had higher control over a failure situation, repurchase intention was significantly higher. We see regret as a feeling that derives from a situation where customers have control over, i.e., a situation that could have been avoided had they acted differently. Thus, in the context of customer demotion situation, we propose the following hypothesis:

H3: *Customers who experience feeling of regret will express higher repurchase (re-patronage) intention than those who experience disappointment.*

Disappointment stems from disconfirmed expectancies. Zeelenberg, et al. (1998b) found that the experience of disappointment was accompanied by feelings of powerlessness and a motivation to escape from the situation, among other things. They suggested that disappointment made people become reluctant to make follow up decisions. Feelings of powerlessness might trigger people to think that any further action or decision will not make a difference at all; thus, leading to inertia (Seligman, 1975). People who experience disappointment tend to escape from the situation and dismiss the event. Disappointment was more associated with complaining and word-of-mouth communications (Zeelenberg & Pieters., 1999). Using Rusbult's investment model logic, the less investment put into the relationship by the firm, the less the customer is committed as well. Failure to inform prior to demotion is seen as a lack of effort made by the firm, which may create disappointment. Therefore, instead of restoring their demoted status by repurchasing the service provider's product or service, disappointed customers would choose different paths. Thus, we propose the following hypotheses:

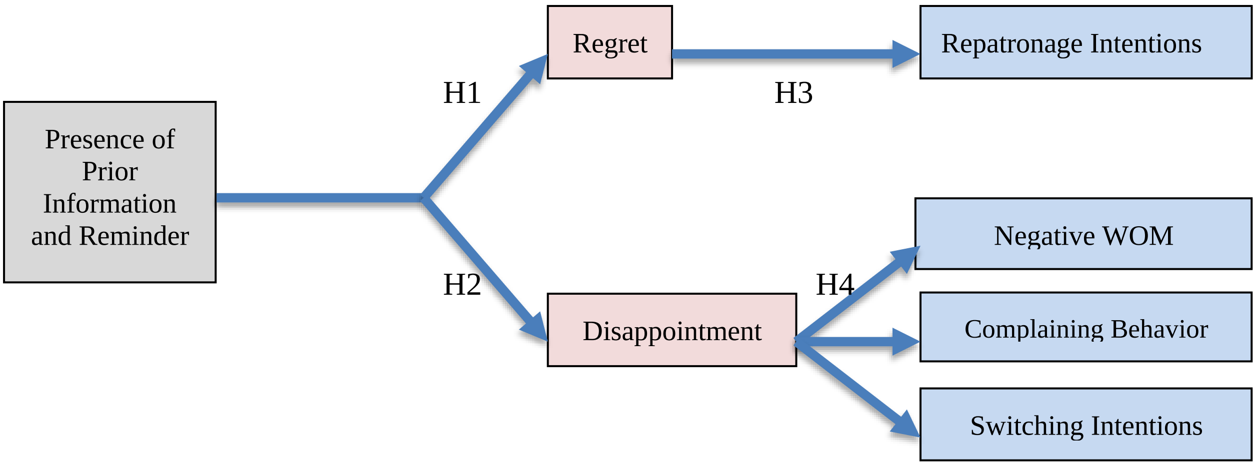
H4a: *Consumers who experience disappointment would be more likely to switch to other provider than those who experience regret*

H4b: *Consumers who experience disappointment would be more likely to to engage in negative word-of-mouth (NWOM) than those who experience regret*

H4c: *Consumers who experience disappointment would be more likely complain than those who experience regret*

The conceptual model of affective and behavioral responses following customer demotion decision is presented on Figure 1 below:

Figure 1
Conceptual Model of the Effect of Customer Demotion on Behavioral Responses



RESEARCH METHODOLOGY

This research tested the proposed hypotheses in the context of loyalty programs in the food service industry, more specifically the restaurant industry. The industry has increasingly used loyalty programs with attractive bonuses such as special prices and treatment, or double or triple redemption points for members of certain level. An experimental research design was used to test the proposed hypotheses. A reality check was administered to assess the realism of the design. Two items of the reality check, developed by Darley & Lim (1993), were used. They were: "I could imagine an actual restaurant/coffee shop doing the things described in the situation earlier," and "I believe that the described situation could happen in real life". Both of the reality check items have an $\alpha = 0.92$).

Data Collection and Sampling

One hundred university students of a large, private university in Jakarta, Indonesia were recruited as participants (58% female; 42% male). The main criteria for recruitment membership in a specific restaurant loyalty program. The chosen restaurant (named as XYZ in the manuscript's appendix for confidentiality purpose) is a popular restaurant of a leading restaurant chain group among the university students. Seventy-three percent of the respondents stated that they had been members of the loyalty program for 1-3 years, while the remaining 27% were members for less than 1 year. On average, they make three visits per week to the café and restaurant. In terms of generational cohort, the participants were students of the senior year which qualifies them to be considered as late Millennials (born between 1997 and 1999).

The use of Indonesian university students as participants in this study was considered appropriate and relevant for a couple of reasons. First, while considered as late Millennials, they still share some characteristics of the Millennials, in that they spend their time socializing with friends in cafes and restaurants, making them regular visitors of these establishments. Research also showed that for Indonesians, eating out has become rituals and regular social activities. In addition, Nielsen found that 11% of Indonesian citizens eat out at least once a day – higher than the global average of 9%. In addition, Indonesia is the largest market for the food service industry in the ASEAN region, with expected CAGR of 7.06% between 2018–2023 (Indonesia Investments, 2018). *Second*, Indonesian Millennials, along with the middle-income group, are considered a very attractive target market for the food service industry due to their large number and unique consumption behaviors. While they may have about enough financial resources to spend on dining out, they are still value-seeking customers who aim to get the most benefit of loyalty programs through bonuses and point redeems. Therefore, reaching a certain level of loyalty program membership becomes an important achievement for them.

A scenario-based, single factor (Information and reminder: with vs. without), between-subject design was used. The 'with' condition was a condition in which participants received information about the firm's policies on loyalty programs and reminder message alarming the current spending level; while 'without info' condition was a condition in which participants received neither information nor reminder message.

Procedure

Participants of this study were Indonesian students of an international study program in a large, private university in Indonesia, with English as the language of course delivery. All participants understood and spoke fluent English. Therefore, questionnaires used in this study were administered in English.

Initially, both groups reviewed the background information of a restaurant. The background information provided some information about the restaurant and benefits of the loyalty program. For the policy and benefit description, we adapted the content from the existing loyalty program of the restaurant. The scenario also told the participants that they were currently enrolled in the loyalty program of the restaurant and held a certain status that rewarded them with privileged benefits. So far, they had not experienced any dissatisfactory service encounter with the restaurant.

After initial exposure to that information, participants filled unrelated questionnaires as a filler activity. Participants were then randomly assigned to any one of the two conditions: with info and without info conditions. The 'with info" group received an email that described information about the restaurant's policy of the loyalty program. They were also informed about their current loyalty points status and that they were fall short below the required spending level and thus, thus would be demoted if they did not dine with the restaurant within a certain period of time.

The 'without info' group received a neutral-content email informing the restaurant's promotional program. Both groups were then asked to fill another filler questionnaire (e.g., "Please rate the attractiveness of layout and graphic design of the email"). Next, both groups were exposed to an email informing that that they had been demoted to lower tier for not meeting minimum spending level. Participants were then asked to respond to the subsequent dependent variable measures. (See appendix A for the stimuli).

Measurements

Participants were asked to respond to a set of questionnaires that reflected the regret and disappointment constructs. Regret and Disappointment Scales (RDS) were used as measures of this study. RDS was developed by Marcatto & Ferrante (2008) and aimed to provide better measures of the regret and disappointment constructs. These scales are considered to have better predictive values of these two constructs than a single direct question (e.g., "How much regret/disappointment do you feel?") because the RDS incorporates internal and external attribution questions into the scales. It does not just assume people automatically understand and relate to terminology such as "regret" and "disappointment" (Marcatto & Ferrante, 2008).

The RDS consists of seven questions and covers aspects of affective reaction, regret counterfactual, disappointment counterfactual, internal attribution, external attribution, control item, and choice between counterfactuals. Regret and disappointment are represented by two items for each (e.g., item 2 and 4 for regret; item 3 and 5 for disappointment). To measure the regret and disappointment level, we followed Marcatto & Ferrante's (2008) method by forming Regret Index (i.e., mean of scores for item 2 and 4) and Disappointment Index (i.e., mean of scores for item 3 and 5). The remaining items of RDS were not included in the calculation as they served different purposes. A sample item for regret was "I wish I had made a different choice" and for disappointment was "I wish the events that were beyond my control had happened differently". All were measured on a 7-point Likert scales, anchored at 1=strongly disagree; 7=strongly agree.

To see what behavioral intentions participants were likely to take, participants were asked to respond to questions measuring repurchase (re-patronage) intentions, negative word-of-mouth communications, complaining behavior, and switching intentions. Repurchase intention measures were adapted from Hellier, Geursen, Carr, & Rickard (2003). The remaining behavioral intention measures were adapted from Singh (1990) and Zeelenberg & Pieters (2004). All measures were measured in a 7-point scale anchored at 1=not at all likely to 7=extremely likely. (See Appendix B for complete measures). Reliability and validity of measurements were tested using Cronbach Alpha and KMO, respectively. The tests revealed that all measurements items were reliable and valid.

ANALYSIS AND RESULTS

A manipulation check was performed to ensure that participants from both groups received the necessary experimental treatment. Participants were asked the following question: "What information did you receive in the previous email?" (1 = information of current loyalty points; 2 = information of promotional program). The manipulation checks confirmed that 100% of those in the 'with info' condition received information about the current loyalty program, while 100% of those in the 'without info' condition read information about the promotional program. Therefore, our manipulation was successful.

To assess whether particular way of informing the customers about their demotion, we compared responses on regret and disappointment index scales of the two groups. The one-way ANOVA results showed that there was a significant effect of the information condition on participants' regret index ($F(1,98) = 23.498$, $p < .01$; see table 1). Participants who received information about the policy, loyalty point status, and reminder of potential demotion expressed significantly more regret than participants who did not receive such information when being demoted to the lower tier, as indicated by the regret index ($M_{\text{with info}} = 4.79$, $SD = .65$ vs. $M_{\text{without info}} = 4.07$, $SD = .82$; $p < .01$). Thus, we found support for H1.

The one-way ANOVA result also showed the significant main effect of information condition on consumers disappointment index ($F(1,98) = 74.679$, $p < .01$), in that participants who did not receive about the policy, loyalty point status and reminder of potential demotion expressed significantly more disappointment than those who were informed, as indicated by the disappointment index ($M_{\text{without info}} = 5.2$, $SD = .515$ vs. $M_{\text{with info}} = 4.17$, $SD = .67$; $p < .01$). Thus, we found support for H2. Mean comparison of the two analyses is shown in the following Figure 2.

Figure 2
Regret and Disappointment Index

Table 1
ANOVA Output

		Sum of Squares	df	Mean Square	F	Sig.
Regret	Between Groups	12.960	1	12.960	23.498	.000
	Within Groups	54.050	98	.552		
	Total	67.010	99			
Disappointment	Between Groups	26.523	1	26.523	74.679	.000
	Within Groups	34.805	98	.355		
	Total	61.328	99			

To test H3, H4a, H4b, and H4c, we used Hayes' Process to take into account the mediation effect of regret and disappointment. This was done so because our initial objective was to investigate behavioral responses following regret and disappointment feeling. Using Hayes' model 4, we treated regret and disappointment as the mediating variables to confirm the relationship between customers' affective responses as result of the presence (absence) of information and reminder message, with their behavioral responses.

As seen in table 2, the results show that being informed and reminded of their status level increased customers' regret significantly ($b = 0.72$, $se = 0.1485$, $t = 4.875$, $p < .01$). Further, customers' regret significantly increased their repurchase intention ($b = 0.176$, $se = 0.758$, $t = 2.329$, $p < .05$); while disappointment did not have an effect on customers' repurchase intention (p = .508). While the residual effect of information and reminder message on repurchase intention is significant (b = 0.796, se = 0.14, t = 5.64, p < .01), the estimated 95% confidence interval with a 5000 bootstrap around the indirect effect of information and reminder message on repurchase intention does not contain zero in regret (b = 0.127, se = 0.065, 95% CI = 0.0114 to 0.269). Therefore, we found support for H3.

Table 2

Results of Mediated Multiple Regression Analysis Using Hayes PROCESS Macro

	Dependent Measures (Y)											
	Repurchase Intentions			Switching Behavior			Negative WOM			Complaining Behavior		
Predictors	β	se	p	β	se	p	β	se	p	β	se	p
Information & Reminder (X)	0.796	0.14	<.01 **	-0.437	0.229	0.06	-0.874	0.299	<.01 **	-0.778	0.112	<.01 **
Regret (M)	0.176	0.076	<.01 **	0.258	0.124	<.05 *	-0.045	0.162	0.78	-0.006	0.076	0.93
Disappointment (M)	0.06	0.095	0.5	0.359	0.155	<.05 *	0.233	0.202	0.25	0.072	0.06	0.239
R-Square	0.433			0.175			0.227			0.442		

Note: ** p<0.01; * p<0.05

With regards to testing H4a, H4b, and H4c, we treated regret and disappointment as mediating variables between the presence (absence) of information and reminder message with switching intention, negative word-of-mouth, and complaining behavior. The results showed that when customers were not informed and reminded of their status level, disappointment increased significantly (b = 1.03, se = 0.1192, t = 8.642, p < .01). Further, customers' disappointment significantly increased switching behavior (b = .358, se = .155, t = 2.316, p < .05). We further checked on the residual effect of information and reminder message on switching behavior and results showed non-significant effect, but the estimated 95% confidence interval with a 5000 bootstrap around the indirect effect of information and reminder message on switching behavior does not contain zero in disappointment (b = -.369, se = .166, 95% CI = -.6919 to -.04). We found a full mediation effect of disappointment in the relationship between the presence (absence) of information and reminder message on switching behavior. Therefore, we found support for H4a.

With regards to negative WOM, the results were similar to the effect on switching behavior, in that when customers were not informed and reminded of their status level, disappointment increased significantly (b = 1.03, se = 0.1192, t = 8.642, p < .01). In this case, customers' disappointment did not significantly increase negative WOM (p = .25). However interestingly, we found that information and reminder messages directly decreased the negative WOM as shown by the residual direct effect (b = -.847, se = .299, t = -2.919, p < .01) and the estimated 95% confidence interval with a 5000 bootstrap did not contain zero (95% CI -1.469 to -2.799). Therefore, H4b was not supported.

The same pattern of findings was found for complaining behavior. When customers were not informed and reminded of their status level, disappointment increased significantly (b = 1.03, se = 0.1192, t = 8.642, p < .01). Similar to the previous case, customers' disappointment did not significantly increase complaining behavior (p = .93). We also found that information and reminder messages directly decreased complaining behavior as shown by the residual direct effect (b = -.778, se = .111, t = -6.957, p < .01) and the estimated 95% confidence interval with a 5000 bootstrap did not contain zero (95% CI -1.00 to -.556). Therefore, H4c was not supported. We summarized our findings in table 3.

Table 3
Summary of Findings

	Hypothesis Statement	Status
H1	Customers who receive prior information and reminder before the demotion decision express higher regret than those who do not receive such information and reminder.	Supported
H2	Customers who do not receive prior information and reminder before the demotion decision express higher disappointment than those who receive such information and reminder.	Supported
H3	Customers who experience feeling of regret will express higher repurchase (re-patronage) intention than those who experience disappointment.	Supported
H4a	Consumers who experience disappointment would be more likely to switch to other provider than those who experience regret	Supported
H4b	Consumers who experience disappointment would be more likely to engage in negative word-of-mouth (NWOM) than those who experience regret	Not supported
H4c	Consumers who experience disappointment would be more likely to complain than those who experience regret	Not supported

DISCUSSIONS AND IMPLICATIONS

As competition intensifies in the restaurant industry, customer relationship management becomes a corporate strategy. To maintain relationships with customers, many firms use hierarchical loyalty programs. While some customers of a certain tier enjoy numerous privileges as preferred customers, things can go awry when the customers' spending falls below the minimum requirements to remain on that tier. Consequently, customers are demoted as they fail to maintain their spending level. A previous study on the effect of customer demotion on loyalty confirms that customer demotion decreases loyalty intentions.

Many speculations may arise. While one may argue that the demotion of the customers can save firms' expenses by maintaining only profitable customers, one can also argue that the customer demotion decision may bring about negative consequences to the firms, such as disappointment that might lead to switching behavior, word-of-mouth communications, etc. However, another may argue that customer demotion, if implemented carefully and strategically, may not always bring negative consequences. Therefore, this study aims to examine whether certain ways of demoting customers would incite certain affective and behavioral responses from the customers. Specifically, the study attempts to uncover what specific emotions that the customers experience following their demotion and what specific actions they would take, in response to their felt emotion. To test the effect of different ways of demoting customers on consumers' affective and behavioral response, an experimental research design was used. The nature of this study is cause-and-effect research; thus, the choice of experimental research design is considered appropriate and relevant.

Our findings confirm several hypotheses, in that, approaches taken by the firm in deciding to demote the customers would result in different affective responses and would lead to different behavioral responses, one of which might be actually beneficial for the firm. On one hand, when customers are well informed about the policies of the loyalty program and are reminded of the demotion decision plan, they realize that the demotion decision is partly because of their actions, thus, they tend to feel regret for not being able to keep up with the required spending levels to keep their status. As shown by our finding, customers who received both information of program's policy and a reminder of the demotion decision scored higher on the regret index than on the disappointment index. On the other hand, when customers do not receive information about the policy, as well as reminders of the demotion plan, customers tend to shift the blame on the firm. This is shown by the higher disappointment index responses given by participants who neither receive information of the policy nor reminder messages from the firm informing the plan to demote.

Our findings confirm that different affective responses (regret and disappointment) lead to different behavioral responses. When customers feel regret because of their inability to keep up with the required spending level, their behavioral responses are beneficial to the firms, that is, they intend to increase their spending level so that they will maintain their privileges. The presence of information and reminder messages prior to demotion decision significantly increase customers repurchase intention. Further, this relationship is partially mediated by feelings of regret, but not disappointment. Regret significantly increases customers repurchase intention, as shown by the strongly supported H3.

Customers who do not receive any information and reminder messages before the demotion decision feel more of a disappointment as indicated by significantly higher disappointment index. This disappointment leads to their intention to switch to, perhaps, another competing restaurant offering better loyalty program. Our results demonstrate that disappointment has a significant effect on switching intention. Moreover, disappointment fully mediates the relationship between information and reminder messages and switching behavior. The absence of information and reminder message do not directly affect the switching behavior, but through the feeling of disappointment, as indicated by our strongly supported H4a.

Interestingly, while the absence of information and reminder message may increase disappointment, disappointment itself does not drive negative word-of-mouth and complaining behavior. Instead, the absence of information and a reminder message prior to demotion directly affects the negative word-of-mouth and complaining behavior. Therefore, when consumers are not informed and reminded of the potential demotion, they spread negative word-of-mouth and engage in complaining behavior without feeling disappointed, contrary to our hypothesis. Disappointment is a strong negative emotion as it involves unfulfilled expectations. People avoid disappointment more than any other emotional experiences and thus, will twist their thinking in any possible ways to in order to avoid recognizing the disappointment itself (Henretty et al., 2008; Lamia, 2012; Lazarus (1991). This might explain why disappointment does not have an effect on customers’ spreading negative word-of-mouth and complaining behavior, since both actions may amplify the negative emotion instead. It also explains why disappointed customers might engage in switching behaviors..

Our non-supported H4b and H4c signal that negative word-of-mouth and complaining behavior are strictly driven by whether or not prior information about demotion is present. Therefore, we can say that the absence of information has an immediate, adverse impact on customer behavior, especially in the form of negative word-of-mouth. Complaining behavior can be seen as less harmful for firms because customers would only voice their complaints to the service provider, and not to external parties.

The manner in which firms communicate demotion decisions to customers has a significant effect in generating reactions from customers. The attribution theory plays an important role in this situation. By informing and reminding the customers before the demotion decision, firms attempt to encourage customers to realize that they actually take part in the process that leads to the demotion decision. As firms shift the causal attributions to the customers, the severity of negative reactions that might come from the customers because of demotion decision might be reduced. When firms fail to inform the customers before the demotion decision takes place, the causal attribution flows to the firm and customers feel disappointment instead of regret.

MANAGERIAL IMPLICATIONS

This study demonstrates the importance of handling customer demotion properly. Firms should understand how different ways of communicating the demotion decision result in different affective and behavioral responses by customers. When a firm properly informs customers prior to demotion, customers' response may benefit the firm. A firm's failure to inform may customers lead to customers' retaliation as result of disappointment. As shown by this study, the retaliation (i.e., switching behaviour) is quite harmful to the firm's business, as it does not give the firm an indication of the real (Huefner & Hunt, 2000). The disappointment that occurs in this context reflects a dissatisfaction which correlates positively with the likelihood of quitting and switching to another competitor (Johnston, 1998). Therefore, firms must use the right strategy to demote customers.

The result provides valuable contributions to the communication strategy of demotion decision that firms must take on regular basis. It is important to clearly communicate the policies of loyalty programs to the customers as well as sending out reminder messages before the demotion decision takes place. Reminder messages may provide an opportunity for the customers to keep up their spending level. This provides an opportunity for restaurants to develop membership mobile apps with points reminder feature built in the system, for instance. In addition, firms must also consider the right timing to warn their customers prior to demotion as it will provide a 'buffer period' for the customers to make purchase to prevent the demotion from happening. A combination of the right timing, content, and reminder frequency may provide less harmful responses from the customers and eventually the customer relationship will be preserved.

Overall, the way firms treat and communicate with customers is critical in maintaining customer loyalty. In today's competitive business environment, customers can and are willing to switch brands or service providers due to customer experience (Kim & Baker, 2020). Kim & Baker (2020) suggested that, as loyalty to a brand or a firm is found to be a separate dimension from loyalty to the firm's employees, firms need to establish strong firm and brand ties beyond the ties that have been established between customers and the firms' employees. This can be achieved through effective customer relationship management by going the extra mile to communicate appropriately with customers.

THEORETICAL IMPLICATIONS

Findings of this research reinforce attribution theory. Attribution theory tries to explain how individuals interpret events and relate them to their thinking and behavior. In attribution theory, an individual's causal attributions would affect subsequent behaviors (Weiner, 1980, 1986). Three causal dimensions make up attributions: locus of control (internal vs. external), stability (stable vs. unstable), and controllability (controllable vs. uncontrollable). The fact that the restaurant fails to remind the customers about their shortfall in spending before the demotion takes place causes customers to attribute service failure to the firm, as that decision appears to be beyond the customers' control. The fault is attributed to the firm and customers feel disappointment. When the restaurant warns the customers before the demotion takes place, customers see it as their own fault (i.e., internal locus of control). Further, they see the event could have been prevented (i.e., controllable) had they made enough spending to maintain their membership tier. Therefore, they demonstrate a feeling of regret.

Further, our findings also confirm how specific emotions cause idiosyncratic behaviors and behavioral tendencies associated with them (Frijda, et al., 1989; Roseman, et al., 1994). As evident in our findings, feeling of regret triggers customers to be more likely to purchase more from the restaurant with the intention to recover their lost status due to the demotion. On the other hand, customers who feel disappointment (who blame the restaurant for not reminding them of the shortfall in spending) intend to switch to another restaurant as a result of their demotion. In addition, findings of this research also confirm part of Rusbult's investment model of commitment. The more customers perceive efforts made by the firm as a relationship investment, the less harmful customers' actions will be taken in the context of unpleasant experience (i.e., demotion). Instead, commitment is strengthened because customers view the firm to be responsibly managing the relationship.

LIMITATIONS AND FUTURE RESEARCH

One limitation to this research is the experimental research design that uses scenario-based experiments, as opposed to the use of a quasi-experimental design. With quasi-experimental design, research results may be closer to real responses. This may or may not reflect the responses of real customers out there. Paper-and-pencil approaches may also be one of the limitations. The use of an interactive website as the medium to present scenarios and solicit responses, along with audio-visual imagery of customers who enjoy certain privileges of the loyalty program may bring more powerful and influential effect to the research. With respect to the demography of research participants, although we can argue that the behavior of customers of a particular culture is more or less the same with other culture in the context of food and beverage industry, a replication study with various samples from different nationals may further corroborate the findings.

Some future research opportunities are available following this research. First, it would be interesting to investigate the time period (i.e., from the day they are informed until the demotion takes place) that is considered effective for the customers to act on closing the discrepancy of their required and actual spending level. Second, it may also be interesting to further investigate which unwanted behavioral responses that disappointed customers might prefer to take at the first place. Further, it would be interesting to see how severe these unwanted behavioral responses affect firms' future profitability. This research only confirms that disappointed customers would engage in one of or all of the three unwanted responses: switching behavior, negative word-of-mouth communication, and complaining behavior. While it can be inferred from statistical findings, it does indicate which behavioral response disappointed cutomers would choose. Further, more unwanted behavioral responses may be explored to provide alternatives of action that seem to be available for the disappointed customers, and thus, firms can anticipate what actions they must take when one or some of these unwanted responses happen.

The current study only focuses on one service product: restaurant. Therefore, in order to establish strong supports for the arguments proposed, studies across different industries should be administered. Opportunities for future research are available in service industries (e.g., department stores, banking, hotels, etc.) to see whether similar results will be found in other type of services or products. Another potential future research would be the incorporation of individual differences such as demographic variables (e.g., age, gender, etc.) and psychological variables (e.g., self-determination personality, etc.) into the model to better understand customers' reaction to status demotion.

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APPENDIX A

Condition with Reminder

Prior Email (D-3)
Date: May 28, 2019
From: XYZ Restaurant Group
To: You@yourhome.com
Re.: “Happy hour is back! Exclusive offer for XYZ Gold Level Card Holders.”

Hi customer,

Thank you for staying shiny with us! Your "anniversary" date with us (June 1) is approaching. We would like to remind you that at this moment, you're short of few stars away to stay at your shiny Gold level. You can check your reward point by logging in to our system. Don't forget to earn more stars to keep your status as XYZ Rewards™ Gold Level Card Member!

Starting on June 1 from 3pm to 7pm, you can enjoy any pasta and drinks at half price! This offer is valid until June 5. Don't worry, we have another exciting offer following up: buy one Cappuccino or Caffé Latte and share one with a friend - valid from June 6 - 13! This offer is definitely EXCLUSIVE for XYZ GOLD Level Card holders. See you tomorrow at our stores!

Best regards,
XYZ Rewards™

Demotion Email (June 1)
Date: June 1, 2019
From: XYZ Restaurant Group
To: You@yourhome.com
Re.: “Your My XYZ Rewards™ level has changed.”

Hi customer,

You got your shiny My XYZ Rewards™ Gold Card by earning 30 Stars in one year. To stay Gold for another year you needed 30 more Stars. Looks like time flew before you got all 30…
So you’re back to Green for now, and your Star count has been reset.
But don’t worry—if you earn 30 Stars again within 12 months, you’ll move from Green level right back to Gold level!

Best regards,
XYZ Rewards™

<u>Condition without Reminder</u>

Prior Email (D-3)
Date: May 28, 2019
From: XYZ Restaurant Group
To: You@yourhome.com
Re.: "Happy hour is back! Exclusive offer for XYZ Gold Level Card Holders."

Hi customer,

Now there's even more reason to meet with friends at XYZ! Starting on June 1 from 3pm to 7pm, you can enjoy any pasta and drinks at half price! This offer is valid until June 5. Don't worry, we have another exciting offer following up: buy one Cappuccino or Caffé Latte and share one with a friend - valid from June 6 - 13!

This offer is definitely EXCLUSIVE for XYZ GOLD Level Card holders. See you tomorrow at our stores!

Best regards,
XYZ Rewards™

Demotion Email (June 1)
Date: June 1, 2019
From: XYZ Restaurant Group
To: You@yourhome.com
Re.: "Your My XYZ Rewards™ level has changed."

Hi customer,

You got your shiny My XYZ Rewards™ Gold Card by earning 30 Stars in one year. To stay Gold for another year you needed 30 more Stars. Looks like time flew before you got all 30…
So you're back to Green for now, and your Star count has been reset.
But don't worry—if you earn 30 Stars again within 12 months, you'll move from Green level right back to Gold level!

Best regards,
XYZ Rewards™

APPENDIX B

Regret and Disappointment Scale (Marcatto and Ferrante, 2009)
(1 = strongly disagree; 7 = strongly agree)

1. I am sorry about what happened to me
2. I wish I had made a different choice
3. I wish the events that were beyond my control had happened differently
4. I feel responsible for what happened to me
5. The events that were beyond my control are the cause of what happened to me
6. I am satisfied about what happened to me
7. Things would have gone better if. . .
   I had chosen differently
   The course of events had been different

Behavioral Responses Measures

Repatronage Intention (Hellier, Geursen, Carr, and Rickard, 2003).
How likely would you: …. (1 = not at all likely; 7 = extremely likely)
1. keep dining out at this restaurant in the future
2. dine out at this restaurant at least at current frequency in the future

Negative WOM (Singh, 1990; Zeelenberg and Pieters, 2004)
How likely would you: … (1 = not at all likely; 7 = extremely likely)
1. speak to to your friends and relatives about your bad experience
2. discourage others to patronize this restaurant

Complaining Behavior (Singh, 1990; Zeelenberg and Pieters, 2004)
How likely would you: …. (1 = not at all likely; 7 = extremely likely)
1. complain to the waitress about this demotion
2. request to see the manager to lodge a complaint

Switching Intentions (Singh, 1990; Zeelenberg and Pieters, 2004)
How likely would you: … (1 = not at all likely; 7 = extremely likely)
1. decide not to go back to this restaurant
2. switch to a competing restaurant for my dining needs
3. go to other competing restaurant if they offer better loyalty treatment