

Why do consumer loyalty rewards programs need careful crafting?

August 24 2010

In order to be competitive, companies can go overboard in trying to come up with creative designs for the loyalty reward programs. According to a new study in the *Journal of Consumer Research*, some of these designs can lead to unintended consequences.

Authors Rajesh Bagchi and Xingbo Li (both Virginia Polytechnic Institute and State University) compared [reward](#) programs where [consumers](#) could achieve the same six-percent discount by reaching either 1,000 points or 100 points. In each case, consumers had to spend \$100. They found that ways rewards are structured -- the "steps" and the magnitude of the reward system -- elicited strikingly different reactions.

The distances appeared larger in the higher magnitude program, so consumers near the reward (with 800 points) felt that they had made much more progress relative to those farther away (with 200 points), as they had accumulated many more points. But participants who were near the reward in the smaller reward program (with 80 points) did not feel that they made more progress relative to those farther away (with 20 points).

The authors found that, even though the reward was the same in both instances, the magnitude of the program affected consumers' perceptions. "Consumers are cognitive misers and do not do the necessary calculations to assess redemption costs. Instead, they use step-sizes to form impressions," the authors write.

If step-sizes are large, the reward appears attainable as the progress-rate appears high (10 points/dollar). Because of the giant step-sizes, perceptions of those closer to the reward do not differ from those farther away. However, when stepsizes are smaller (1 point/dollar), those close to the reward believe that they have made a lot of progress, given the baby steps, relative to those farther away.

The authors also found that these progress perceptions affected loyalty and the likelihood of recommending a program. They believe their findings could be applied to organizations that wish to create programs that encourage financial savings or weight loss.

More information: Rajesh Bagchi and Xingbo Li. "Illusionary Progress in Loyalty Programs: Magnitudes, Reward-Distances, and Step-Size Ambiguity." Journal of Consumer Research: February 2011.

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Provided by University of Chicago

Citation: Why do consumer loyalty rewards programs need careful crafting? (2010, August 24) retrieved 2 May 2024 from

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