

The Effects of Rewards Programs

Abstract: Reward programs have become ubiquitous in the marketplace and a key tool companies use in the hope of shaping the behaviors of customers, salespeople, and employees. For example, many retailer reward programs attempt to motivate customers to visit the store more often and spend more during each visit. In the present research, we test a series of existing and new hypotheses regarding the effects of reward programs on consumer behavior. We analyze a large transactional dataset from a major retailer's reward program; the dataset includes individual-level purchases and reward redemptions. We augment our modeling of this secondary dataset with controlled laboratory experiments. Among other predictions, we examine the "goal gradient" hypothesis, the "post-reward pause" hypothesis, and the notion that customers "earn the right to indulge" (in luxury rewards) by exerting more effort in the program. To the best of our knowledge, our research is the first to model transactional data from a large retailer reward program in order to test a diverse set of behavioral hypotheses. For example, we find that as customers approach the program's reward goals, they accelerate the rate at which they purchase in the chain's stores (i.e., a goal gradient effect). We also observe that customers who need to exert greater effort to reach a reward threshold are more likely to redeem a luxury reward. Customers also exhibit a "post-reward pause," whereby after redeeming a reward they temporarily reduce their purchase frequency. Our study of these and other phenomena leverages the richness of the secondary transactional dataset available from this retailer's reward program. We empirically model these data to better understand the effects of rewards programs on consumer behavior.