Marketing Colloquia

Thursday, February 2, 2012
3:00 PM – 4:20 PM, JMHH 741

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"Latent Redemption Thresholds in Linear Loyalty Programs" with Eric T. Bradlow, Peter S. Fader

This article proposes a novel explanation for a behavioral phenomenon that drives the operating costs of loyalty programs. A framework derived from mental accounting explains how consumers accumulate and redeem points in a specific type of loyalty program. In `linear' reward programs, customers are motivated to stockpile on their own despite the absence of explicit stockpiling incentives from the retailer. Our framework predicts that consumers follow a threshold rule when deciding whether to stockpile or redeem points. We apply the mental accounting framework to generate hypotheses on how the thresholds vary as a function of spend and inter-purchase time. The hypotheses are tested with a Bayesian hierarchical model of how each customer's redeemable points affect redemption choice. The findings suggest that customers do seem to stockpile and redeem according to thresholds that evolve in a manner consistent with the proposed hypotheses. The proposed framework can help researchers and managers to devise strategies that influence redemptions by separately framing the gains and losses of cash and reward currencies.