

The current and future sales impact of a retail frequency reward program

Gail Ayala Taylor*, Scott A. Neslin

Tuck School of Business, Dartmouth College, Hanover, NH 03755, USA

Accepted 5 November 2004

Abstract

This research presents an empirical study of the impact of a retail frequency reward program on store sales. We examine both the “points pressure,” or short-term impact, and the “rewarded behavior,” or long-term impact. The points-pressure impact is due to forward-looking customers increasing their purchase levels in order to earn the reward. The rewarded-behavior impact is evidenced as purchases above baseline levels after an individual has received a reward and could result from either behavioral learning reinforcement or positive affect resulting from the reward. We investigate a turkey reward program that awarded free turkeys to shoppers who accumulated the required sales levels during an 8-week period. We find both a points-pressure and rewarded-behavior impact. These effects are statistically significant and managerially relevant in that the program is apparently profitable. The points-pressure impact is especially strong among customers who do not place value on frequent shopper programs that in general deliver immediate price discounts. The key implications are that frequency reward programs of the form, “buy x, then receive xx” can be profitable, are segmentation strategies, and can complement a store’s overall frequent shopper program.

© 2005 New York University. Published by Elsevier Inc. All rights reserved.

Keywords: Retail frequency reward program; Points-pressure impact; Shopper programs; Rewarded behavior impact

Introduction

Frequency reward programs have become significant marketing activities for many companies. Airlines reward travelers with free flights after they have accumulated a required level of travel miles. Hotels reward their customers with free rooms after they have stayed at the hotel a certain number of nights. Bookstores award free merchandise to customers who have purchased a requisite number of books. The common thread is that frequency reward programs provide a tangible benefit to customers for repeatedly purchasing the company’s product(s).

The benefits and costs of reward programs are debated in the literature. On the plus side, reward programs are seen as powerful mechanisms for increasing sales or brand loyalty (Kopalle & Neslin 2003). On the negative side, reward

programs can be costly, complex, and precipitate significant competitive response (Dowling & Uncles 1997; Kopalle & Neslin 2003).

Fundamental to sorting through these trade-offs is the question, “What is the sales impact of frequency reward programs?” While there is a rich theoretical literature on the economics of these programs (driven by the sales impact) (Beggs & Klemperer 1992; Kim, Shi, & Srinivasan 2001; Kopalle & Neslin 2003), there is less empirical study of the sales impact itself (Bell & Lal 2002; Bolton, Kannan, & Bramlett 2000; Drèze & Hoch 1998; Lewis 2004).

What makes the sales impact question particularly intriguing is that reward programs can increase sales through two mechanisms: “points pressure” and “rewarded behavior.” The points-pressure mechanism is the short-term impact whereby customers increase their purchase rate in an effort to earn a reward. The rewarded-behavior mechanism is the long-term impact whereby customers increase their purchase rate after they have received the reward. If reward programs have a points-pressure impact but no reward-behavior impact, they

* Corresponding author.

E-mail addresses: Gail.Taylor@dartmouth.edu (G.A. Taylor), Scott.Neslin@dartmouth.edu (S.A. Neslin).

function essentially as multiperiod, but still episodic, promotions (Kopalle & Neslin 2003). If, however, there also is a rewarded-behavior effect, frequency reward programs can be a strategic tool for building the brand. It is, therefore, important to understand the relative contributions of these mechanisms to the overall sales impact of a particular reward program.

The purpose of this paper is to measure the short-term (points pressure) and long-term (rewarded behavior) effects of a frequency reward program. The setting is a “Turkey Reward Program” implemented by a supermarket chain. We investigate two executions of the program over a two-year period. Indeed, we find evidence for both points-pressure and rewarded-behavior impacts, and evidence that these impacts are related to customer characteristics.

The rest of the paper proceeds as follows. First, we elaborate on our framework and discuss previous research. Second, we describe our method, including the research setting, the design of the turkey reward program, and data collection. Third, we describe our analysis and results. We conclude with a discussion of implications for both researchers and practitioners.

Framework

Fig. 1 depicts the points-pressure and rewarded-behavior impacts. Period A is the customer’s baseline purchase rate. In Period B, the customer might increase his or her purchase rate in order to meet the requirements for a reward. The customer then might receive a reward at the end of Period B depending on his or her purchase level during that period. The potential long-term impact of the reward is evidenced in Period C. This purchase level could be equal to the baseline, which would mean no rewarded-behavior effect or anywhere above that rate.

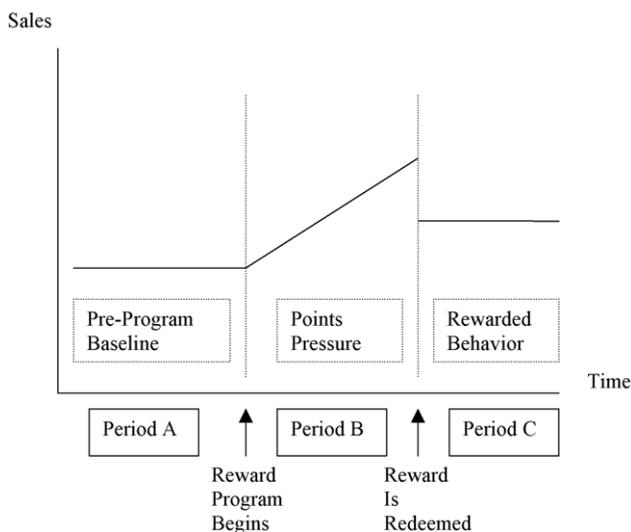


Fig. 1. Points-pressure and rewarded-behavior effects.

The situation is similar to that depicted by Dekimpe and Hanssens (1999) in terms of “business as usual” and “hysteresis” (p. 399). If there is no rewarded-behavior effect, we have business as usual, as purchase rates return to normal after the promotion. A rewarded-behavior effect suggests possible hysteresis. Dekimpe and Hanssens portray hysteresis as a permanent change in behavior. While we cannot guarantee the effect is permanent, the main point is that the rewarded-behavior effect operates for some time *after* the consumer receives a reward (in our case, we measure the effect for 4 weeks).

The simple effects portrayed in Fig. 1 are idealizations. There is no guarantee they operate linearly. Indeed, the dynamic rational models discussed in the next section include nonlinear discounting of future utility. For this reason, we do not analyze the data on a week-to-week basis, but in terms of average purchase rates measured in periods A, B, and C.

The points-pressure effect

A points-pressure effect could be produced by a combination of customer switching costs and future orientation. The customer does not want to patronize a different retailer and lose the opportunity to build his or her points total. This produces a switching cost in the form of a foregone opportunity to build up sales levels (points) toward earning the reward. In order for the customer to care about this opportunity cost, he or she must be future oriented, that is, care about the future reward to be gained by accumulating points. In this way, switching costs and future orientation impel the customer to increase spending during Period B in Fig. 1.

These factors have been formalized in dynamic rational models, where reward programs “try to change the customer’s choice process from operating in a spot market to operating in a multiperiod, contractual relationship market” (Dowling and Uncles 1997, pp. 78–79). Kim, Shi, and Srinivasan (2001), Lewis (2004), and Kopalle and Neslin (2003) have formulated dynamic structural models of reward programs. In these models, the customer makes a purchase decision in period t to maximize his or her utility in period t , *plus* the utility to be expected in future periods due to this decision. The customer realizes that future utility is enhanced by the reward, and that he or she needs to accumulate the required sales levels or “points” to earn it. This creates the points pressure to increase purchases until the reward is earned.

Drèze and Hoch (1998) examined a category destination program that awarded a gift certificate after a required number of purchases. They found that category sales of baby-related products increased during the program. Lewis (2004) estimated a dynamic structural model for an online retailer who awarded frequent flyer miles to customers who achieved various purchase thresholds. Lewis found that this program increased purchase rates as customers built up their sales totals in anticipation of the reward. Interestingly, he found evidence for market segmentation, in that some customers had the future orientation to drive the points-pressure effect,

متن کامل مقاله

دریافت فوری ←

ISIArticles

مرجع مقالات تخصصی ایران

- ✓ امکان دانلود نسخه تمام متن مقالات انگلیسی
- ✓ امکان دانلود نسخه ترجمه شده مقالات
- ✓ پذیرش سفارش ترجمه تخصصی
- ✓ امکان جستجو در آرشیو جامعی از صدها موضوع و هزاران مقاله
- ✓ امکان دانلود رایگان ۲ صفحه اول هر مقاله
- ✓ امکان پرداخت اینترنتی با کلیه کارت های عضو شتاب
- ✓ دانلود فوری مقاله پس از پرداخت آنلاین
- ✓ پشتیبانی کامل خرید با بهره مندی از سیستم هوشمند رهگیری سفارشات