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Investigating the impact of surprise rewards on consumer responses

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ABSTRACT

Adopting an experimental approach, this research compared surprise rewards with membership discount rewards in terms of their impact on customer responses of delight, frustration and satisfaction. In addition, this research examined the circumstances under which surprise rewards should be offered in order to yield maximum benefits for hospitality firms. In particular, the study examined how the customer's cumulative satisfaction (high vs. low) influences the effectiveness of surprise rewards (vs. membership discount rewards) in increasing customer delight and satisfaction and decreasing customer frustration. Consistent with the theoretical predictions, results show that surprise rewards are more effective than membership discount rewards for enhancing customer delight and satisfaction and attenuating customer frustration, particularly when the customer's cumulative satisfaction is low. These findings have important implications for the hospitality industry. Hospitality managers and marketers could use this information to design effective loyalty reward programs.

1. Introduction

Loyalty reward programs have become extremely popular in recent decades, and they are a subject of great interest to both practitioners and scholars (Henderson et al., 2011; Meyer-Waarden and Benavent, 2012; Shoemaker and Lewis, 1999; Yoo and Bai, 2013). According to Ferguson and Hlavinka (2007), in the United States, loyalty reward program participation has topped 1.3 billion, with the average household subscribing to 12 separate programs. By providing rewards such as discounts on purchases or points toward a free purchase, firms aim to entice their most valuable customers to make repeat purchases (Meyer-Waarden and Benavent, 2012). Despite their pervasiveness, academic research findings diverge on the value of loyalty reward programs (Dorotic et al., 2011; Dowling and Uncles, 1997; Leenheer et al., 2007; Shugan, 2005). On the one hand, previous research shows that loyalty reward programs can effectively enhance customers' value perceptions, satisfaction, retention, willingness to pay price premiums and share of wallet (Bolton et al., 2000; Keh and Lee, 2006; Leenheer et al., 2007; Sharp and Sharp, 1997; Verhoef, 2003). On the other hand, empirical evidence indicates that loyalty reward programs are not that powerful in boosting market share (Meyer-Waarden and Benavent, 2006, 2009). Further, some research findings suggest that rewarding loyal customers with discount prices may erode future business profits (Shugan, 2005).

Amid this debate, marketing scholars continue to pay attention to the effectiveness of program designs (Dowling and Uncles, 1997; Hu et al., 2010; Kivetz and Simonson, 2003; Leenheer et al., 2007; Liu and Yang, 2009; Nunes and Dréze, 2006; Wagner et al., 2009). The key question of concern is which type of loyalty rewards is most effective in yielding desired marketing outcomes (Jang and Mattila, 2005; Meyer-Waarden and Benavent, 2012). Previous research shows that reward structure factors such as reward type and reward tiers can greatly influence customer preferences and loyalty and that customers prefer direct rewards over indirect rewards (e.g., Keh and Lee, 2006; Tanford, 2013). In addition, Hu et al. (2010) revealed that, if customers are satisfied with hotel experience, immediate rewards are more effective than delayed rewards in building program loyalty and customer loyalty.

This research examines yet another type of loyalty rewards: surprise rewards. Surprise rewards can be defined as unexpected incentives firms provide to their loyal customers. In the extremely competitive global hospitality industry, more and more firms are strategically aiming to delight, rather than merely satisfy their customers (Kim and Mattila, 2010; St. James and Taylor, 2004; Vanhamme and de Bont, 2008). Accordingly, it is critically important for hospitality firms to find an effective way to "woo" their loyal customers with rewards (Meyer-Waarden and Benavent, 2012) – that is, to delight loyal customers with surprise rewards.

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As such, this research argues that surprise rewards will boost loyal customers' service experiences beyond their expectations, thus leading to an even higher level of customer satisfaction (Keiningham and Vavra, 2001).

In addition, this research examines the circumstances under which surprise rewards are most effective. By linking a long-term relationship construct, cumulative satisfaction, to the research context, the current study aims to understand how cumulative satisfaction moderates the differential impact of surprise rewards (vs. membership discount rewards) on customers' affective and evaluative responses. Cumulative satisfaction can be defined as a customer's overall evaluation of a product or service provider to date (Johnson et al., 1995; Johnson and Fornell, 1991). When interacting with a particular service provider, customers who have experienced bad service in the past are more likely to feel frustrated and dissatisfied with their current experience. Will surprise rewards be able to reverse the influence of low cumulative satisfaction and reduce customers' feelings of frustration and dissatisfaction toward the service provider? The current study explores these research questions in the context of hospitality loyalty reward programs.

2. Theoretical background

The current research examines the joint impact of rewards type (surprise rewards vs. membership discount rewards) and cumulative satisfaction (low vs. high) on customers' on-site responses of delight, frustration and satisfaction. In the next section, definitions of the three key dependent variables (i.e., delight, frustration and satisfaction) will be offered. Then, the anchoring and adjustment framework (Tversky and Kahneman, 1974) will be presented as a theoretical lens for this research.

2.1. Customer Delight, Frustration and Satisfaction

Delight – In consumer behavior research, delight is often recognized as a positive emotional state that is above and beyond satisfaction (Füller and Matzler, 2008; Loureiro and Kastenholz, 2011; Plutchik, 1980, 2003). Compared with satisfaction, delight is unique in the sense that it involves the emotional responses of surprise and joy (Plutchik, 1980, 2003). A positive (pleasant) surprise in the consumer context is considered the necessary condition for, and is most often associated with, eliciting customer delight (Finn, 2005; Oliver et al., 1997; Rust and Oliver, 2000; Vanhamme and de Bont, 2008). The current research argues that, compared with a contract-based membership discount reward, a surprise reward includes a positive surprise element, thus leading to a delightful, rather than just a satisfactory experience (Füller and Matzler, 2008; Füller et al., 2006; Valenzuela et al., 2010).

Frustration – By definition, consumer frustration is a highly negative emotion that can be attributed to interference with a potentially satisfying sequence of acts or behaviors (Berezan et al., 2015; Stauss et al., 2005). The notion of frustration is quite relevant to the context of service relationship management. Of particular relevance to this research is the work of Berezan et al. (2015) who discuss consumer frustration with loyalty rewards programs. Based on a content analysis of 1519 comments from members of five major hotel rewards programs, Berezan et al. (2015) found that managing customer frustration is paramount. Given a history of poor service episodes, customers are highly likely to experience frustration (Berezan et al., 2015). If these negative feelings are not effectively managed, problems may quickly escalate via the rapid spread of electronic word-of-mouth (Berezan et al., 2015). The current research builds on this work and argues that a surprise reward might reduce frustration, as unexpected incentives can break the contextual consistency, thus providing an opportunity to establish new impressions of the service provider (Henderson et al., 2011; Ji and Wood, 2007; Wood and Neal, 2009).

Satisfaction – While cumulative satisfaction is a customer's overall evaluation of a service provider based on all previous consumptions (Johnson et al., 1995; Johnson and Fornell, 1991), the dependent variable of this research capture customers' evaluations of the current consumption experience. Previous research show that emotions play a primary role during customers' evaluation processes (Mattila, 2006; Wirtz et al., 2000; Zajonc, 1984). As such, it is argued here that the surprise element heightens the intensity of affective responses, thus leading to more favorable on-site evaluative responses such as satisfaction (Palmatier et al., 2009; Valenzuela et al., 2010).

2.2. The moderating impact of cumulative satisfaction

Relying on Tversky and Kahneman's (1974) anchoring-adjustment framework, the current research further proposes that cumulative satisfaction will moderate the effects described above. Tversky and Kahneman (1974) postulate that customers use relevant information as an anchor for subsequent evaluations of the same stimulus. Prior research in customer satisfaction shows that, in repeat-consumption situations, consumers primarily rely on prior satisfaction judgments to evaluate their current experiences and engage in adjustment, or judgment updating processes, only when faced with unexpected service experiences (Mattila, 2003). Translated to the current research context, it is argued that contract-based discounts (e.g., a membership discount reward) are expected, and consequently, cumulative satisfaction serves as the anchor when evaluating the current experience. Conversely, surprise rewards are unexpected, thus reducing the consumer's reliance on the anchor of cumulative satisfaction and hence an adjustment process is needed (Mattila, 2003).

The nature of the adjustment process further hinges on the congruity between the anchor and the target of evaluation. Depending on the anchor-target congruity, the target evaluation will be adjusted either toward (i.e., assimilation effect) or away from (i.e., contrast effect) the anchor (Bohner et al., 2002; Chernev, 2011; Davis et al., 1986; McFerran et al., 2010; Wansink et al., 1998; Yadav, 1994). Previous research found that when the anchor and the target belong to the same domain (i.e., congruent by nature), the adjustment process reflects an assimilation pattern (Bohner et al., 2002; Chernev, 2011). When the anchor and the target belong to opposite domains (i.e., incongruent by nature), however, the adjustment process shows a contrast pattern (Bohner et al., 2002; Chernev, 2011). For example, in the context of vice vs. virtue foods, Chernev (2011) found that the sequential evaluation of calorie content is driven by an anchoring-adjustment process. When the target food and the anchor belong to opposite domains (e.g., evaluating a virtue food such as a green salad after being exposed to a vice food such as a chocolate cake), the calorie estimation of the target will be distanced away from the anchor (i.e., contrast effect). Conversely, when the target and the anchor belong to the same domain (e.g., evaluating French fries after being exposed to a chocolate cake), the calorie estimation of the target will be similar to that of the anchor (i.e., assimilation effect).

Such an anchoring-adjustment framework also applies to the current research. In the current research, cumulative satisfaction serves as the anchor when evaluating the current consumption experience involving either a membership discount reward or a surprise reward. As a membership discount reward is expected, cumulative satisfaction serves as the anchor to guide the consumer's evaluation of the current service experience. On the other hand, surprise rewards are unexpected (Ji and Wood, 2007; Wood and Neal, 2009), thus reducing the consumer's reliance on