

# Customers who redeem their rewards in loyalty programs buy more

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Both before and after redeeming a reward, the customers purchase more than usual.

In recent years, [loyalty programs](#) [7] have become the dominant tool for loyalty marketing worldwide. From grocery- and clothes retailers, through airlines, banks, fitness centers, to our favorite coffee places or museums, our wallets burst with LP cards.

For customers, the benefits of being a loyalty program member become the most salient when the customer redeems a reward (e.g. gets discount, product or preferential service). Yet, as much as one-third of \$48 billion worth of loyalty program points issued in 2010 remained unredeemed.

To ensure that members redeem a reward, many firms impose high spending thresholds and points expiry, which in turn increases customer frustration if the points expire before customers have an opportunity to cash them in. Conversely, some loyalty programs opt for a long-term expiration policy, but they fear that without the expiration pressure to redeem points, members' purchases may decline and their loyalty will fade.

Should firms encourage reward redemption and consider long-term expiration policies? If firms encourage points redemption, how does a redemption of a reward affect members' purchase behavior?

## Redemption enhances sales

Associate Professor Matilda Dorotic at BI Norwegian Business School together with a team of marketing researchers analyzed purchase and redemption behavior of 3094 members over 183 weeks in a non-restrictive loyalty program where customers could choose the time and amount they wanted to redeem and they did not face points expiry.

Contrary to the existing presumptions, the researchers find that the customer's decision to redeem a reward, by itself, significantly enhances his/her purchase behavior before and after redemption. This occurs even when customers redeem just a fraction of their accumulated loyalty program points.

In periods before and after redeeming a reward, the customers purchase more than usual (both, they purchase more frequently and they tend to spend more per purchase) even when they are not "pressured".

## Power of redeeming rewards

These findings strongly emphasize the power of redeeming a reward in loyalty programs.

"The mere decision to redeem a reward may boost motivation in the loyalty program, which enhances purchase behavior," says Matilda Dorotic at BI Norwegian Business School.


Redemption purchase effect was much stronger than the effects of “points pressure” for customers who couple of weeks before the points redemption did not have sufficient amount of points for rewards that they subsequently redeemed.

This finding supports the notion that redeeming rewards may create positive attitudes and feelings that drive members to purchase more frequently and obtain higher amounts of loyalty program points even in the absence of external pressures from the firm. However, effects will differ between customers.

#### Six tips for managers

Matilda Dorotic have developed six tips aimed at loyalty program managers based on the research study:

1. Encourage redemption of rewards in your loyalty programs, because reward redemption reinforces customer’s purchase behavior.
2. Remove hurdles in your loyalty program to improve members’ experiences. There is no need to impose binding thresholds and/or points expiry to enhance members’ purchase behavior.
3. Get customers to start redeeming! Customers who recently redeemed a reward are more likely to subsequently redeem another reward. So, by stimulating reward redemption managers increase purchases directly in the short term, as well as in the long run through increased redemptions.
4. Encourage purchases! Besides encouraging redemption, managers should also encourage purchasing since increasing purchase also increases the probability of members redeeming a reward.
5. Both purchasing and redemption can be stimulated with direct mailings to members (particularly if multiple channels of communication with customers are used). However, we caution managers to be careful, because too much mailings decreases customer responsiveness and increases irritation.
6. Be particularly sensitive to long-term customers! Those best customers (long-term, high buyers) tend to decrease their purchase over time more than other customer groups. Long-term customers are relatively more apt to increase the amount spent in response to promotional strategies. This group is therefore an important target segment for policies intending to encourage redemption, but those policies have to be carefully tailored because both pre- and post-reward effects seem to be harder to evoke among long-term members. Your other customers are worth nurturing too!

 [Contrary to the existing presumptions, the researchers find that the customer’s decision to redeem a reward, by itself, significantly enhances his/her purchase behavior before and after redemption. \(Photo: Microstock\)](#) [8]

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[M. Dorotic et. al.: Reward Redemption Effects In a Loyalty Program When Customers Choose How Much and When To Redeem. Forthcoming in International Journal of Marketing Research. \(Abstract\)](#) [16]

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