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Rebate redemption requirements – Can they discourage redeeming?

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ABSTRACT

Mail-in rebates are a popular price promotion that receive substantial negative criticism due to high consumer resentment and mistrust. There is little research examining rebate redemption requirements and it seems no attempt has been made to develop a measure of what constitutes a reasonable and, perhaps more importantly, an unreasonable set of compliance requirements. This paper reports on a study of rebate promotion redemption requirements and the differences in their perceived onerousness. Furthermore, we test the effect of rebate requirement onerousness on consumers' intention to redeem. Results show that consumers do perceive difference in the relative onerousness of rebate requirements. Furthermore, through the use of Best-Worst Scaling it was possible to rank the onerousness of requirements and demonstrate that the most onerous were up to 50 times more likely to deter consumers from redeeming than the least onerous. These results will help marketers better understand how to promote products using rebate promotions that do not foster consumer angst. Findings offer implications for retailers, product marketers, policy makers, and regulators.

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1. Introduction

There are many tools available to increase sales; prominent among these is the price promotion. Coupons are a popular form of price promotion, as are, albeit to a lesser extent, the mail-in rebate. Rebates provide consumers with a post-purchase discount with strings firmly attached. Consumers must complete the rebate redemption form, collate the required proof of purchase items (e.g. package bar codes, serial numbers, sales receipt) and submit the completed package so it arrives prior to the expiry date. The discount is conditional on some future action and as such, a rebate does not offer a guaranteed monetary benefit to the consumer.

Because the discount may subsequently not be redeemed, the non-redemption risk is effectively transferred to the consumer (Lu and Moorthy, 2007). Said another way, the seller has their payment and the buyer pays the cost of non-redemption. Referred to as slippage (Bulkeley, 1998), or breakage (Tat and Lee, 1993) non redemption behaviour is an appealing aspect of rebates (Chen et al., 2005). It is a major factor in rebate popularity (Furger, 1997; Greenman, 1999), and "…an easy way for companies to make money" (Charalambous, 2008 p.3).

It is because slippage benefits manufactures that many in the popular press argue redemption requirements are made deliberately onerous to deter consumers from redeeming (Ploskina, 2008; Ross, 2010). They cite stories of consumers being denied due to minor technicalities (Ewoldt, 2010; McCall, 2006), offer advice on how consumers can beat the system to ensure they get their rebate (Ewoldt, 2010; Ross, 2010; Tonn, 2010), and highlight retailers who discourage manufacturer rebates to reduce customer complaints (Arar, 2007; Moses, 2009; Ross, 2010).

Whilst there is less research on rebates than coupons (Khouja et al., 2008), a common theme is that simplifying the rebate process will reduce slippage (Tat et al., 1988). Some argue that the increased satisfaction resulting from lower redemption angst will increase customer loyalty and increase long run profits (Tat and Schwepker, 1998). This position has intuitive appeal, supported by press reports of high consumer resentment, mistrust of rebate offers, and calls for greater regulation (Arar, 2007; Barlyn, 2007; Ewoldt, 2009; Mies, 2009; Moses, 2009; Ploskina, 2008).

The perception that rebate requirements are made deliberately onerous is re-enforced when, in the name of consumer protection, regulators step in and force companies to more clearly disclose conditions (Odell, 2011). The Australian Competition and Consumer Commission (ACCC) has issued several statements warning companies over misleading and obscure rebate conditions (ACCC, 1996, 1998). Further, prosecutions have resulted where conditions were deemed, "…particularly unusual and onerous…" (ACCC, 2010, p. 1), where consumers have been misled, or where conditions have been concealed (ACCC, 1996).

It is reasonable companies engaging in rebate promotions protect themselves against fraud, by ensuring that consumers

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applying for a rebate have bought a qualifying product within the promotion period. As such, those claiming a rebate have a certain onus of proof. The question becomes, at what point does the onus of proof begin to act as a disincentive to redemption? If rebates are to be an effective promotion tool, they must have credibility with consumers. This necessitates compliance requirements which both discourage fraud and encourage positive consumer sentiment; a difficult balance.

There is little current research on rebate promotions and no research examining individual rebate redemption requirements. Furthermore, it appears no attempt has been made to develop a measure of what constitutes a reasonable and, perhaps more importantly, an unreasonable set of compliance requirements. Accordingly, we investigate individual rebate requirements and compare their relative onerousness. Furthermore, we investigate if differences in relative onerousness effect individuals' intentions to redeem the rebate. These are important first steps in balancing the challenging goal of discouraging fraud without alienating consumers. Importantly, this research provides a starting point for distilling a set of 'reasonable' promotion requirements.

2. Review of the literature

Sales promotions are integral to a firm's communication strategy (Tat and Lee, 1993) and marketers have created a vast array of clever promotions to stimulate demand. Chief among these is the price promotion, specifically coupons and rebates. The popularity of rebates is common in the literature, however, their exact value is difficult to establish. Estimates range from $702 million in 1980 (Tat and Lee, 1993), to $10 billion in 2002 (Millman, 2003) to $6 billion in 2005 (Grow and Chhatwal, 2005).

The significant difference between coupons and rebates is when the redemption occurs – coupons at the time of purchase and rebates post-purchase. When a coupon entices a sale, the customer receives the discount, and the manufacturer incurs an immediate reduction in sales revenue. The consumer has already expended the effort necessary, i.e. collecting and using the coupon, to redeem the discount. If the consumer does not redeem the coupon, no sale is made, and the manufacturer receives no revenue. Therefore, the risk in non-redemption for coupons lies with the manufacturer.

Conversely, a rebate entices a sale at the regular price, with the promise of a future discount. The consumer has expended no effort and receives no benefit at the time of purchase. The discount is conditional on some future action and as such, a rebate does not offer a guaranteed benefit to the consumer. It has been likened to a gamble, where the probability of winning (redeeming a rebate) is equal to the likelihood of completing the redemption requirements (Soman and Gourville, 2005).

It has been argued (Moorthy and Soman, 2005) that the conditions under which the purchasing decision is made are significantly different to those that exist when rebate redemption occurs. The in-store environment is designed to elicit a sale and undoubtedly, the positives of the rebate are highlighted to the consumer. In a recent study, Tasoff and Letzler (2014) investigated individuals' beliefs around the likelihood that they would redeem a rebate. They found that people were generally overoptimistic about their likelihood of redeeming with expected redemption rates exceeding actual redemption rates by 49%. Post sale, there is no one reminding the consumer to redeem and more pressing activities often foster forgetfulness and procrastination. The nett effect of this overestimation is consumers underestimate the true cost of the product (Cohen, 2009; Stonedale, 2015).

Rebates represent an effective price discrimination technique. Rebates are not directly linked to the product purchased, and therefore do not create a perception of reduced value (Folkes and Wheat, 1995). In effect, they allow the manufacturer to sell the same product at two different prices. Consumers willing to pay normal retail price, P_0, will continue to do so, and may or may not redeem the rebate (R). Consumers unwilling to pay P_0 may be enticed into the market by the reduced price $P_1 = P_0 - R$. Therefore, compared to price reductions rebates offer a more efficient method of price discrimination and an opportunity for the seller to obtain a portion of the consumer surplus.

The delayed incentive characteristics of rebates make them advantageous to sellers (Arcelus, Kumar, and Srinivasan, 2007; Ploskina, 2008; Soman, 1998, p. 429). Consumers drawn by the rebate's effective lower price may have minimal knowledge of, or concern for, the associated redemption effort required in claiming the discount. Because the discount may subsequently not be redeemed, the non-redemption risk is effectively transferred to the consumer (Lu and Moorthy, 2007); the seller has their payment and the buyer pays the cost of non-redemption. Referred to as slippage (Bulkeley, 1998), or breakage (Tat and Lee, 1993) non redemption behaviour is an appealing aspect of rebates for manufacturers (Chen et al., 2005), is a major factor in rebate popularity (Furger, 1997; Greenman, 1999), and "…an easy way for companies to make money" (Charalambous, 2008, p. 30 p.3).

2.1. Rebates, Slippage and Redemption Requirements

There has been little research into what causes slippage (Neslin, 2002). Jolson et al. (1987) identified five key reasons for slippage: lost proof(s) of purchase, the attractiveness of the rebate relative to the redemption effort was insufficient, no rebate form received at the point of sale, and the delayed nature of the payment. Other authors cite, time-inconsistent preferences (Soman, 1998), procrastination (Gilpatric, 2009; Soman, 1998), forgetfulness (Lu and Moorthy, 2007), and onerous redemption requirements (Tat et al., 1988).

Tat (1988) found a negative relationship between rebate redemption and the perceived difficulty of the redemption process. In a later study Tat and Lee (1993) identified three consumer motives for rebate redemption; price consciousness, personal satisfaction from redeeming a rebate to save money, and perceived time and effort of the redemption process. The first two had a positive influence on the consumer's decision to redeem. Time and effort were inversely related to redemption rates. Rebate users agree there is too much time and effort required in the redemption process, which deters them from claiming redemptions (Tat and Lee, 1993).

Paradoxically, a later study by Tat and Schwepker (1998) investigating linkages between various consumer motives and rebate redemption, found no direct relationship between time and effort, and redemption rates. They did find, however, that people who gain satisfaction from the redemption process are more likely to redeem. Further, time and effort had a significant effect on satisfaction with the redemption process, and indirectly on redemption rates. That is to say, they found a significant indirect relationship between time and effort and redemption rates. The less time and effort involved in redeeming the rebate, and the greater the satisfaction gained from the process the more likely an individual is to redeem a rebate. Brown (1999) extends this finding to suggest that heavy rebate users are more likely to resent difficult rebate requirements than light users. Furthermore, satisfaction with participating in a rebate promotion is greatest in the early stages of the exposure to the promotion, and higher redemption rates are associated with less aggravation with the redemption process.

Whilst the studies by Tat et al. (1988), Tat and Lee (1993), and Tat and Schwepker (1998) examined perceived rebate redemption

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