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# The concept of near money in loyalty programmes

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ABSTRACT

Loyalty reward schemes often have their own currency, for example, frequent flyer miles, which is a form of near money or quasi money. In a variation of earlier work by Snelders et al. (1992), when examining both New Zealand (Study 1) and Hong Kong (Study 2) residents, respondents provided typicality ratings, similarity ratings, and answers and reaction times to the question “Is X a type of money?” for examples of money, near money and objects of value. The results from both studies showed that near money is conceptualised in a way that is like but distinct from legal tender. Two further studies investigated implications of this conceptualisation. Study 3 found that preferences for spending near money were influenced by the ostensible purpose of the currency, and Study 4 showed that near money seemed to be placed outside of regular legal tender mental accounts.

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## 1. Introduction

This paper investigates the currency used in loyalty reward schemes. In particular, we examine whether such currencies are psychologically similar to money and whether spending the currency might be subject to cognitive bias.

Business relies on customer loyalty to thrive (Kumar and Shah, 2004; Oliver, 1997). Loyalty schemes are one of the most common marketing tools businesses use to encourage sales, by rewarding loyal customers with financial or psychological incentives, and establishing a customer database in order to understand their behaviour (Dowling and Uncles, 1997; Gómez et al., 2006; Kumar and Shah, 2004; Meyer-Waarden and Benavent, 2006; Parvatiyar and Sheth, 2001). Much research has been conducted on the efficacy of loyalty schemes (Söderlund and Colliander, 2015; Stauss et al., 2005; Steinhoff and Palmatier, 2016; Tuzovic, 2010; Wagner et al., 2009), especially into how they promote customer loyalty and stronger brand attitude and loyalty (Berman, 2006; Bolton et al., 2000; Rosenbaum et al., 2005; Yi and Jeon, 2003). Often a loyalty scheme uses a unique set of rules with its own “currency” (Mathies and Gudergan, 2012; Smith and Sparks, 2009; Stourm et al., 2015; Wei and Xiao, 2015).

The currency used in loyalty schemes can be seen as a form of special purpose or near money (Lea et al., 1987). The fundamental principle of these currencies is similar to that of legal tender, i.e. of an official medium of payment legally recognized in a country. The currency is issued and governed by an organisation (Berman, 2006), often with the aid of a system, particularly when the loyalty scheme is designed as a multi-partner programme (Postrel, 2003). Members of loyalty schemes often plan, collect, store, and use the currencies as they would legal tender, and from the consumer's point of view they are distinguished from legal tender largely because they can only be used to buy a limited range of goods. You cannot normally use your coffee card to buy alcoholic drinks, nor can you use frequent flyer miles to buy a bus ticket. This restriction is often intended to bind the user to goods or services issued by a particular organisation.

Although in this paper we focus on near money that is part of a loyalty reward scheme, a vast variety of different limited purpose currencies have been used in different places and times. Cocoa beans had a long history as a form of commodity money; a slave was worth 100 cocoa beans in Nicaragua in the 19th century (Allen, 2009). In the 1950s, a number of African tribes used cattle as a medium of exchange to buy prestige goods, such as slaves, marriage rights, or children (Bohannan, 1959). To buy a slave, you needed cattle. A slave cannot be bought with brass rods or other “commercial” money. In modern society, cigarettes have been used as a proxy for money in prison as prisoners are often not allowed money (Thompkins, 2007). After a ban on smoking was initiated in US prisons, cans of mackerel replaced cigarettes, forming a “mackerel economy” (Scheck, 2008). New currencies in different forms are invented daily. For example, in 2009, Satoshi Nakamoto invented Bitcoin; an electronic cash system that has been hugely

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successful, with millions of dollar of estimated daily transactions (Barber et al., 2012).

Legal tender or ordinary money is effective when it acts as a standardised unit of measurement, when it functions as a reasonable way to store wealth, and when it is relatively easy to circulate and buy things (e.g. Lea et al., 1987). The near money or currency used in loyalty reward schemes is usually fairly easy to use, but because of its relatively restricted range of use, it does not serve particularly well as a standardised unit of measurement. Its use as a standardised measure is also handicapped, because near money can often not be directly converted to legal tender. As a store of value it is usually reasonable in the short but rather poor in the long term. Often, near money has an expiry date. Airlines are prone to devaluing their currency, either directly by simply announcing that so much of their currency will now buy less air miles, or indirectly, by restricting the range of flights that can be bought with the currency (Kemp, 2005). Furthermore, some companies establish "use by dates" for the accrued near money, for example, air miles often expire after a certain period of time.

Over the years, the psychology of money has been one of the long-standing themes of economic psychology, and it has emerged that money is not simply the fungible tool of exchange that it might appear to be in economics. Some indication of this is given by the different words used to describe it (dough or filthy lucre). Research has shown that people often take into account money's origin when they consider how to spend it. Money appears to have properties that resemble those of an addictive drug. Despite its convenience, money is often a poor gift. In short, money is a psychological as well as a purely economic concept (See, e.g., Belk, 1999, 2006; Belk and Wallendorf, 1990; Burgoyne and Routh, 1991; Lea and Webley, 2006).

In this paper we extend some of the research into the psychology of money to near money. The general expectation is that near money, too, should show psychological quirks that are not readily explained by economic reasoning. In this paper, two different lines of research into near money are presented. In one (Studies 1 and 2), we use techniques derived from cognitive psychology to see how near money is represented in people's minds alongside both representations of legal tender (e.g. cash, credit cards) and valuable objects (e.g. shares, art). In the other (Studies 3 and 4), we investigate how people's uses of near money might be affected by psychological concepts of near money. To make the reader's task easier, discussion of the theory and previous research underlying Studies 3 and 4 is delayed until the introduction to Study 3. The remainder of this introduction considers the representation of money.

Since at least the time of Aristotle (for example, Sorabji, 1972), it has been generally held in psychology that remembered or learnt concepts make up an associative network. Demonstrations of this can be obtained in a number of different ways. For example, one might ask how typical a sparrow is as a type of bird and find that it will be rated as more typical than a penguin. One can ask simply whether a sparrow or a penguin is a type of bird, and find that it takes a shorter time for people to respond "yes" to the sparrow than the penguin. The shorter time is an indication that the concept of sparrow is closer to that of bird than the concept of penguin is (Collins and Loftus, 1975; Rosch et al., 1976). This methodology has been widely used throughout cognitive psychology to discover the way that mental representations are linked. For example, Kemp et al. (2009) used reaction times to explore how different autobiographical events and episodes were associated in memory.

A different but related method entails asking people for similarity ratings. For example, how similar are two different strategies for coping with personal problems? These ratings can then be subjected to multidimensional scaling in order to see how the different strategies are perceived to be related to each other and which dimensions might underlie the similarities (Westbrook, 1979).

Snelders et al. (1992) investigated the concept of money using such methods from cognitive psychology, and Studies 1 and 2 below are heavily based on the procedural and analytic methods they employed. However, we expanded the objects to be classified and rated to include instances of near money in loyalty reward schemes. Snelders et al. (1992) presented their participants mostly with instances of money (e.g. a pound note), money-like objects (for example, a cheque; an American Express card), and objects of value (for example, a book voucher; gold).

For one of their studies, Snelders et al. (1992) included participants from both the United Kingdom and the Netherlands, since there is no necessary reason why different cultures should associate different money-like objects in the same way. Following their lead, our Study 1 was conducted in New Zealand while Study 2 was conducted in Hong Kong. Note here that, while both countries have loyalty reward schemes with their own currencies, the schemes that were active in the two countries at the time of our research were of course different. Moreover, they were different in type. In general, New Zealand loyalty reward schemes were more prominent in using air miles as a currency or reward than those in Hong Kong. Details of particular loyalty reward schemes investigated in this paper are given in the Appendix.

The general hypothesis investigated in Studies 1 and 2 was that the different near moneys would tend to be grouped together in terms of their typicality as types of money, the average reaction time to questions of "Is X a type of money?", and their perceived similarity. This grouping would be different to that for legal tender and other forms of wealth.

## 2. Study 1

### 2.1. Method

#### 2.1.1. Participants

There were 78 participants. All were university students (25 males and 53 females). Most (87%) of the participants were aged between 15 and 24. They responded to flyers around the campus of the university advertising 3 different experiments in return for NZ$30 petrol vouchers. Participants' consent was collected at the beginning of the questionnaire. All participants lived in New Zealand at the time.

#### 2.1.2. Procedures

Participants were told this was a study to investigate different types of money. The experiment took place in a laboratory. The experiment was administered online using *Qualtrics Survey Software*, and the participants used the mouse as a response device throughout. Participants were required to respond as quickly and accurately as possible and were told their response time would be recorded. The study was divided into three parts, and instructions were given at the beginning of each part. It took about 15 min to complete.

#### 2.1.3. Typicality ratings

Participants were required to rate 12 items (see Table 1) for their typicality as kinds of money, using a 7-point rating scale (ranging from 1 = very typical to 7 = very atypical). The 12 items were chosen after a preliminary experiment in which respondents answered the question "Is X a kind of money?" for 30 items. The 12 eventually used were chosen on the basis that they included some near money items and produced a range of "Yes" responses (from 37 to 97%) to the question. The 12 items were presented in

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