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The impact of instant reward programs and bonus premiums on consumer purchase behavior

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ABSTRACT

This study examines the impact of an instant reward program (IRP) with bonus premiums on consumer purchase behavior. An IRP is a rapidly growing form of short-term program that rewards consumers instantly with small premiums per fixed spending, where these premiums are part of a larger set of collectibles. A supplementary element in many IRPs promotes specific brands with an extra premium, labeled bonus premiums. Bonus premiums are the extra premiums consumers can earn by buying a specific promoted brand, which is a non-price promotion tied to the IRP. Therefore, consumers can earn premiums in two ways: based on total spending and on purchases of promoted brands. To test the effects of these marketing instruments, this study uses Dutch household panel data related to purchases of 23 product categories spanning four supermarket chains. We decompose consumer purchase behavior by modeling the number of shopping trips, category-level purchase incidence, brand choice, and purchase quantity. The results show that an IRP results in incremental shopping trips. Promoting a brand with a bonus premium and price discount compared to just a price discount results in higher choice probabilities for the promoted brand. Finally, the IRP and bonus premium are especially effective for households that collect the premiums, but we also find positive albeit smaller effects for non-collecting households.

1. Introduction

Retailers seek instruments to generate consumer excitement and stimulate sales. Many retailers (see Table 1) adopted a new reward program design, namely a short-term program that rewards consumers instantly with small premiums per fixed spending. We label this program design instant reward program (IRP). As Table 1 shows, the IRP instrument has been adopted by many different retailers in many different countries. For example, in Woolworths Dreamworks Heroes promotion, consumers receive cards featuring characters from popular Dreamworks movies for every $20 they spend. The 42 cards fit together in a complementary album (see Table 1 for more examples and Appendix A for an advertisement from an IRP). Thus, an IRP is a rapidly growing form of short-term program that rewards consumers instantly with small premiums per fixed spending, where these premiums are part of a larger set of collectibles.

Marketing instruments that reward consumer purchase behavior can be characterized by three dimensions: reward timing, the collectability of rewards, and the basis on which rewards can be earned (Blattberg, Kim, & Neslin, 2008; Dowling & Uncles, 1997;

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Table 1
Examples of instant reward programs.

Retailer	Year	Country	Promotion name	Premium per
Delhaize	2011	Belgium	Smurfenactie	€20
Nah & Frisch	2012	Austria	Disney Pixar Karten	€10
Rewe	2012	Germany	Unsere Erde	€10
Billa	2012	Italy	Alliga Joe	€20
7-Eleven	2013	Singapore	Team Marvel	$24
Lidl	2014	France	Stikeez	€15
Cactus	2014	Luxembourg	Brazil'oos	€10
Woolworths	2014	Australia	Dreamworks Heroes	$20
Migros	2015	Switzerland	Swiss Mania	CHF20
Plus	2015	Netherlands	Minions	€15
Pick n Pay	2015	South Africa	Stikeez	R150
Lidl	2015	Portugal	Super Gang dos Frescos	€10

Yi & Jeon, 2003; see Table 2). An IRP differs from conventional, frequency reward programs (FRPs) in terms of both timing and collectability: consumers *instantly* receive rewards that are *collectable*, instead of receiving an *uncollectable delayed* reward (e.g., "Buy 10 times, get 1 free"; Kivetz, Urminsky, & Zheng, 2006). The effectiveness of the conventional FRPs is debatable (Dowling & Uncles, 1997; Zhang & Breugelmans, 2012). Some studies reported significant positive effects (e.g., Taylor & Neslin, 2005), while others have not found a significant effect (e.g., Mägi, 2003). In addition, program designs that provide instant rewards are most preferred by consumers (Yi & Jeon, 2003). Therefore, it is important to study how effective program designs with an instant reward scheme are in stimulating sales.

As a supplementary element, many IRPs included promotions of specific brands using a bonus premium; see Appendix A for a feature advertisement with bonus premium. In such programs, consumers can earn premiums in two ways: based on the total purchase amount (e.g., a premium per every $20) and on their purchases of the promoted brand (e.g., buy Coca-Cola and get an additional premium). Hence, bonus premiums are the extra premiums consumers can earn by buying a specific promoted brand, which is a non-price promotion tied to the IRP.

The closest analog to a bonus premium is a free gift promotion: a different item offered for free when purchasing the core product, e.g., a free glass when buying a six-pack of Heineken beer (d'Astous & Jacob, 2002; Laran & Tsiros, 2013). Free gifts are typically offered by a manufacturer for their brand only (Gedenk, Neslin, & Ailawadi, 2006) and not part of a larger set of collectibles (see for example the framework used by d'Astous & Jacob 2002, p. 1286). Previous studies showed that a free gift increases the perceived value of the promoted brand (Palmeira & Srivastava, 2013). In contrast to free gifts, bonus premiums can be used by retailers for multiple brands simultaneously and are part of a larger set of collectables (Table 2). Consumers are more motivated to obtain rewards they collect (Gao, Huang, & Simonson, 2014) and hence they might react more strongly to bonus premiums compared to a free gift when they already own a number of premiums. The use of the bonus premiums constitutes an innovative example of a non-price promotion; by studying them, we add to the growing body of research that considers promotional forms other than regular price discounts (Ailawadi, Gedenk, Langer, Ma, & Neslin, 2014; Kim, Natter, & Spann, 2014).

The goal of this study is to examine the effectiveness of IRPs with bonus premiums. Despite the increased use of these instruments and the fundamental differences with FRPs and free gifts in terms of reward timing and collectability (see Table 2), academics and practitioners have limited knowledge of their effects and we believe we can contribute considerably here. A second contribution is that this study examines the effect of a reward program in combination with promotions. Most existing literature examined program designs which reward consumers only with points/rewards for total spending. Very little research has addressed the effect of promotions within a rewards program (Breugelmans et al., 2015; Grewal et al., 2011). The use of multiple reward-earning bases is particularly interesting because the bonus premium may stimulate brand switching, whereas the IRP may stimulate making trips to the store. A third contribution of this study is the use of actual purchase data. So far, research on premium and free gift promotions is almost exclusively based on experiments (e.g., Gao et al., 2014; Laran & Tsiros, 2013; Simonson, Carmon, & O'Curry, 1994). This is particularly important given that promotions involving premiums and free gifts constitute a general retail trend; overall consumer spending on such promotions reached $45.8 billion in 2009 (Laran & Tsiros, 2013).

More specifically, this study aims to address the following questions: How effective are the IRP and bonus premium on increasing the components of sales? As retailers and manufacturers benefit differently from changes in consumer purchase behavior, it is important to understand the effects of the IRP and bonus premiums on store trips, category incidence, brand choice, and purchase quantity to provide valuable insights to both retailer and manufacturer. What is the effect of these instruments for households

Table 2
Comparison of IRP and bonus premiums with other marketing reward instruments.

Marketing instrument	Reward timing	Collectability	Reward earning basis
IRP	Instantly after purchase	Collectable	Total spending
FRP	After milestone completion	Non-collectable	Total spending
Bonus premium	Instantly after purchase	Collectable	Brand purchase
Free gift	Instantly after purchase	Non-collectable	Brand purchase