Illusionary Progress in Loyalty Programs: Moderating Role of Perceived Ease of Estimation and Medium’s Magnitude on Consumer Perceptions  

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We demonstrate that the perceived ease of estimating redemption costs influences how a medium’s magnitude and reward-distance impacts loyalty program evaluations (e.g., attractiveness, attainability). When it is harder to estimate costs, consumers use magnitude to make inferences. Distances appear larger in the high (vs. low) magnitude conditions and correspondingly, have a stronger influence on perceptions. When cost estimation is perceived to be easy, participants overweigh the rate of return (i.e., points earned per dollar). The rate is higher in the high (vs. low) magnitude conditions and correspondingly, the effect of distance on perceptions is smaller. We investigate the underlying process and report findings from four studies.

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EXPANDED ABSTRACT

Compare the following promotions—“Earn a free lunch after accumulating 10,000 points. Get 1,000 points with every lunch purchase.” versus “Earn a free lunch after accumulating 100 points. Get 10 points with every lunch purchase.” In both cases (10,000-high magnitude and 100-low magnitude), consumers need to purchase 10 lunches to avail the 11th lunch for free. Thus, perceptions of the promotion (e.g., attractiveness, ease of attainability) and progress (e.g., time and money needed to redeem the reward) should not be differentially influenced. However, we believe that the magnitude of the medium in which the judgment is elicited will influence consumers’ perceptions, even when the effort and expense incurred in earning these rewards remain the same. Specifically, we posit that the perceived ease with which consumers think they can estimate redemption costs (hard vs. easy) will influence how the medium’s magnitude affects perceptions and study these contingent on consumers’ distance from the reward (far vs. near).

When costs associated with points accruals are made more ambiguous (e.g., “Get 100 points with every lunch purchase that costs $5 or more”), the true costs are harder to discern (a lunch could cost $5 or $10). In such instances, consumers may use the only other cue available to them, that is, the medium’s magnitude, to make inferences about the program. However, when costs are made more obvious (e.g., “Get 100 points with every $1 spent”), consumers may believe that the redemption costs will be easier to estimate and may make an attempt to infer them. To do so, however, consumers will first need to attend to the rate of return in the medium (i.e., number of points earned per dollar) and then divide the number of required points by this rate. Given the complexity involved in the second step, we do not expect consumers to follow through with the computation and instead (fallibly) use the rate of return as a proxy for making program inferences. Thus, participants may overweigh the rate of return and adjust insufficiently for the influence of the number of points. We draw from research in marketing and psychology to develop our hypotheses and report findings from four scenario-based studies.

In study 1A we only focus on the hard to estimate costs condition. We manipulate magnitude (high vs. low) and reward-distance (far, near) and study contingent effects on program attractiveness and progress. In this study participants learn that they can earn a free lunch after accumulating a certain number of points in a restaurant. Every lunch costing $5 or more will result in a fixed number of redeemable points, for example, 150 points in the high magnitude condition and 7.5 points in the low magnitude condition. Participants need to earn 1,500 points and 75 points respectively in the high- and the low-magnitude conditions to redeem the reward. We manipulate reward-distance by informing participants how many points they have already earned. Because the real rate of return is unclear ($5 or more per lunch), the true redemption costs are harder to discern. In such a situation, we expect consumers to use the medium’s magnitude and reward-distance to make inferences. In the high magnitude conditions the distances appear larger. Thus, consumers in the far condition feel that they have to travel a much larger distance to earn the reward relative to those in the near condition. In contrast, in the low magnitude condition, where distances appear much smaller, consumers’ perceptions of progress are not influenced by reward-distance. Correspondingly, judgments of program attractiveness and attainability are influenced by reward-distance in the high magnitude condition but not so in the low magnitude condition. We also find that attainability perceptions mediate the relationship between magnitude and reward-distance on program attractiveness. Study 1B replicates the results of Study 1A.

In study 2A we focus on the easy to estimate costs condition in a credit card context where points could be redeemed for an $8 gas card. As in the earlier studies, we also manipulate magnitude (high vs. low) and reward-distance (far, near) and study contingent effects on program attractiveness and progress. However, in this study we make the rate of return more explicit. Participants learn that every dollar that they spent would fetch a certain number of redeemable points. In the high magnitude condition the rate of return is higher relative to the low magnitude condition, but participants need to accumulate more points to earn the reward. We manipulate reward-distance by informing participants the number of points that they have already earned. Because the rate of return is specified clearly, participants feel that they will be able to easily estimate the redemption costs and pay attention to the rate of return. However, in reality, the cost computations are harder than they appear. Consequently, instead of using this rate to compute redemption costs, participants use this rate as a cue to make program inferences. In the high magnitude condition, the rate of return is higher and so consumers are not influenced by reward-distance. In contrast, in the low magnitude condition, the rate of return is significantly lower and participants who have to traverse a longer distance to earn the reward may feel that they have made less progress relative to those who are closer to earning the reward.

Therefore, in direct contrast to the findings of studies 1A and 1B, program attractiveness and attainability perceptions are influenced by reward-distance only in the low magnitude condition, but not in the high magnitude condition. Consistent with findings from study 1A, we also find that attainability perceptions mediate the relationship between magnitude and reward-distance on program attractiveness. In study 2B, we use the same procedures as in study 2A, but ask participants to calculate redemption costs before responding to all the other measures. Calculating redemption costs requires paying attention to both the rate of return as well the points required and as expected, this attenuates the influence of magnitude and reward-distance on attractiveness and attainability. These findings suggest that individuals may not have calculated redemption costs in study 2A, or for that matter in studies 1A and 1B, and may have anchored on other factors (e.g., rate of return in study 2A), which led to perceptions of illusionary progress. We discuss theoretical and managerial implications and suggest avenues for future research.