How 'Benefit Distribution' Influences Consumer Goal Perseverance in Loyalty Programs

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This research introduces benefit distribution, defined as the degree to which receipt of benefits (e.g., loyalty program rewards) is coupled with a goal’s end state. Altering benefit distribution influences the effect of progress upon goal perseverance and attitudes toward the offering firm. Psychological mechanisms and theoretical implications are discussed.

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EXTENDED ABSTRACT

This research demonstrates that altering the distribution of benefits accrued as a function of progress toward a consumer loyalty program goal influences goal perseverance and attitudes toward the offering firm. Benefit distribution is proposed as the degree to which receipt of benefits is coupled with the goal end state. That is, benefit distribution determines the extent to which benefits are disbursed as a function of progress toward the end state of a loyalty goal, versus solely attached to that end state. Although such practices of separating end state-related and progress-related rewards are widespread (e.g., My Starbucks Rewards offers redeemable vouchers prior to gold status), the resulting impact upon loyalty program effectiveness is not well understood. In addition to explicating the effects of benefit distribution, we identify two underlying psychological mechanisms, with broad implications for goal theory in the loyalty domain and beyond. In particular, this work contributes to research examining the relationship between consumer goal pursuit and improved loyalty program outcomes (e.g., Bagchi and Li 2011; Drèze and Nunes 2011; Kivetz, Urminsky, and Zheng 2006; Nunes and Drèze 2006), goal progress effects (e.g., Louro, Pieters and Zeelenberg 2007), and waste aversion (e.g., Bolton and Alba 2012).

Benefit distribution is all-or-nothing when benefits are disbursed only upon achieving the end state, whereas benefit distribution becomes cumulative as benefits are disbursed as a function of progress independent from that end state. What are the implications of an all-or-nothing versus cumulative benefit distribution for consumer engagement in loyalty programs? As shown in a series of field and laboratory studies, benefit distribution alters the influence of goal progress upon goal perseverance and attitudes toward the offering firm. Specifically, when benefit distribution is all-or-nothing, goal perseverance and attitudes improve as goal progress increases, but this effect is mitigated by the presence of cumulative benefits. Two underlying psychological processes account for this pattern; i) aversion to wasting resource investments (e.g. time and effort) that become salient with progress and ii) perceptions of marginal value associated with further progress.

Five studies tested and found support for the preceding propositions. Study 1 was a field study conducted to evaluate whether pursuit of a loyalty program goal providing an all-or-nothing versus cumulative benefit distribution increased program completion rates. New members received a loyalty card with the goal of attending 12 times in one month. Benefit distribution was manipulated to be either all-or-nothing (12 stamps to receive $30 membership credit) or cumulative ($2.50 membership credit per stamp up to $30). Results indicated that consumers in the all-or-nothing (vs. cumulative) condition attended more often, and were more likely to persevere to achieve the goal of 12 visits. Study 2 was a loyalty program simulation conducted in a controlled laboratory environment to examine the relationship between benefit distribution and goal progress in determining goal perseverance. In a 2 (benefit distribution: all-or-nothing/ cumulative) x 2 (goal progress: low/high) between subjects design, participants were given the option to adopt a goal to win a real raffle prize through earning 10 tickets. In the all-or-nothing condition, ten raffle tickets were received upon completing the 10th task, whereas in the cumulative condition a ticket was rewarded after each task. In the low (high) progress conditions, a difficult target task was presented after 2 (8 tasks). For an all-or-nothing distribution, progress increased perseverance (e.g., time spent on the difficult task), but the effect of progress was mitigated for a cumulative distribution.

Studies 3–4 examined the underlying roles of aversion to wasting resource investments and marginal value perceptions. Study 3 employed a 2 (benefit distribution: all-or-nothing/ cumulative) x 2 (goal progress: low/high) between subjects design. Participants read a scenario in which they had accumulated (2/8) stamps out of 10 on a coffee loyalty card. In the all-or-nothing condition, 10 stamps provided a free coffee, in the cumulative condition, each stamp provided a 10% discount. Participants indicated goal perseverance intentions, in addition to perceptions of invested resources (e.g., effort and time) and marginal value of further progress. Results were consistent with study 2, such that for an all-or-nothing distribution, progress increased perseverance. In contrast and as expected, this effect was mitigated for a cumulative benefit distribution. A bootstrap analysis (Zhao, Lynch, and Chen 2010) indicated that the effect of progress upon perseverance was mediated by both the salience of invested resources and perceptions of marginal value for an all-or-nothing distribution, and that these pathways were mitigated for a cumulative distribution. Study 4 examined the implications of hybrid benefit distributions (which provide both all-or-nothing and cumulative benefits) upon perseverance and underlying processes. The results indicated that the addition of cumulative benefits to all-or-nothing benefits serves to attenuate the salience of invested resources, thereby also mitigating overall goal perseverance. This effect emerged even when such cumulative benefits were purely incremental. Finally, study 5 examined the impact of benefit distribution upon attitudes toward the firm, while demonstrating that individual differences in waste aversion moderate the impact of benefit distribution. A 3 (benefit distribution: all-or-nothing/cumulative/hybrid) x 2 (goal progress: low/high) between subjects design was employed. The pattern of results for goal perseverance replicated previous studies. However, an all-or-nothing distribution had the adverse effect of undermining consumer attitudes toward the firm during initial stages of goal pursuit, which only improved to reach parity with cumulative and hybrid distributions. As such, whereas all-or-nothing goals may improve perseverance and program completion, their application does risk harming attitudes toward the firm. Furthermore, individuals high (low) in waste aversion demonstrated an amplified (mitigated) effect of progress upon perseverance and attitudes. Taken together, these findings provide theoretical contributions to loyalty research, goal theory, and related areas.

REFERENCES


