

Buying free rewards: the impact of a points-plus-cash promotion on purchase and reward redemption

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While many studies have investigated consumer purchase behavior in reward programs, a better understanding of customer redemption behavior is lacking, particularly when promotions affect a core aspect of reward programs?free rewards. In this paper, we examine the impact of a promotion on purchase and reward redemption in a reward program in which consumers can partially cover the cost of a free reward with their money. The literature on reward programs suggests a positive reinforcement caused by reward redemption, whereas the literature on promotion provides different views regarding the existence of a postpromotion dip. Using data from a major retailer?s reward program, we verify that such a promotion attracted customers with less transaction activity and shorter tenure. Interestingly, consumers using the promotion increased their preference for hedonic rewards compared to their previously observed behavior. This ch