

Department of Marketing



Research Seminars Series | March 5th, 1-3 pm | AD 0.090

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Should I Pay With Money or Redeem Points for This Purchase? How Exchange Rate Stability Influences Loyalty Point Redemption

Abstract: Many loyalty programs award members points for their purchases, which can be redeemed later for additional goods and services. Although copious research has examined motivation to earn points, less is known about why and when loyalty program members choose to redeem points. In this research, we examine how the exchange rate between money and points affects consumers' choices to redeem points for a purchase. One factor that varies across loyalty programs is the stability of the exchange rate: hospitality industry programs tend to use a variable exchange rate (e.g., 35,000 points for any flight within the continental U.S.), while retail loyalty programs tend to use a fixed exchange rate (e.g., 100 points for \$1 of merchandise). In four studies, we find that allowing the exchange rate to vary across redemption opportunities increases optimism about future value of points and systematically reduces redemption of points relative to a fixed exchange rate. Our research provides insight into how managers of loyalty programs can leverage the exchange rate between money and points to influence consumers' redemption choices.