

Applied Marketing Science / Angewandte Marketingforschung

RESEARCH

Sören Köcher

# The Paradox of Points

Theoretical Foundation  
and Empirical Evidence of Medium  
Magnitude Effects in Loyalty Programs

 Springer Gabler

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Theoretical Foundation and Empirical  
Evidence of Medium Magnitude  
Effects in Loyalty Programs

With a foreword by Prof. Dr. Hartmut H. Holzmüller

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To Sarah

## Foreword

Loyalty programs have become one of the most important instruments for improving customer retention. A fundamental common principle among these programs is that they offer their members a certain number of units of a program currency such as frequent flyer miles, loyalty points, or stamps on the basis of cumulative spending on the provider's products or services which, in turn, can be exchanged for rewards. However, despite this similarity loyalty programs in business practices widely differ regarding the magnitude of their program currency. This dissertation focuses on the effects stemming from these medium magnitudes on customer-provider relationships.

More precisely, within his thesis Sören Köcher systematically investigates the effects of the magnitude of loyalty program currencies on the central consumer decisions in a loyalty program membership; namely, participation, redemption, purchase, and reward decisions. The results of twelve empirical studies discover a seemingly paradoxical finding: High magnitude currencies improve the attractiveness of collecting units of the program currency but entail reluctant spending behavior. In addition, this dissertation examines under which conditions these effects appear and vanish. Despite the abundance of previous academic research on loyalty schemes the investigation of the effects of alleged irrelevant variations of the magnitude of loyalty program currencies on consumer choices remain unexplored. Hence, this monograph enhances our comprehension of how loyalty program currencies work and, therefore, is of very high scientific as well as practical relevance. From a theoretical perspective, this research discovers a contradiction of one of the most fundamental principles of rational choice theory and, thus, contributes to a better understanding of when and why people deviate from rational decision-making. In addition, since variations of the magnitude of loyalty program currencies have to be considered as cost neutral, the implications resulting from the findings of this dissertation should be of particular interest for companies planning to develop and implement loyalty programs as well as for firms which already launched a loyalty scheme.

With his work, Sören Köcher impressively demonstrates his expertise and skills regarding experimental research and associated methods of analysis. The documented studies are composed, conducted, and analyzed in a very purposeful, creative, and comprehensive manner. Aside from the methodological quality, this dissertation is based on a very solid presentation of conceptual and theoretical background knowledge. The author provides a concise, up-to-date literature review of previous research on loyalty programs and individual choice behavior. In

addition, he succeeds in discussing and reflecting his empirical results against existing theories but also in advancing the discipline's theoretical knowledge.

In sum, this dissertation truly expands our understanding of how loyalty program currencies influence consumer choice behavior to a large extent and provides significant theoretical contributions as well as valuable managerial implications for improving the performance of such programs in business practices. Thus, I hope and wish that this book and its insights will enjoy a wide readership and high acceptance among academics as well as practitioners.

Dortmund, January 2015

Prof. Dr. Harmut H. Holzmüller



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Dortmund, January 2015

Sören Köcher

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