



The Psychology of Rewards Programs

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Have you ever thought about why most companies seem to offer loyalty programs to their customers? Is this just an effective marketing technique, or is there something more to it than this? People are creatures of habit. They like doing things through repetition. If you notice, advertising will say the same thing over and over again and people will eventually treat it as second nature and automatically do it. This is why telephone numbers are repeated many times, and why advertising is run frequently in a short time period. Usually something is repeated three times before it stays in memory beyond the time of the advertisement. The rewards programs are taking the everyday shopping habits and attaching rewards to them which further solidifies this habit. The rewards can be used as justification for continuing to buy these items whether or not they are wanted or needed, or a better deal exists somewhere else. This habit can become a subtle addiction, which is perpetuated by the emotional state that is tapped into.

Addictions and Emotional States

Products that sell to large volumes of people can have an addictive quality to them. The classic “sin bin” products are good examples: cigarettes, alcohol, coffee, chocolate and sugar are common examples. There are positive uses for these products, but the marketing of them encourages you to consume them without limit. There are also subtle addictions that induce consumption that tend to be subconscious in nature and focus on emotional states. These items tend to focus on perceived emotional deficiencies in a person, and marketing the product as a way to fill the gap. As an example, an advertisement will imply a message that “you will be cool if you buy this item”. The underlying message is that you are not cool the way you are, and this item will fix it for you. If you actually believe that you are not cool, this advertising will be effective in getting you to buy the product. Another example is that you will look wonderful if you buy this item. This is implying that you are ugly, and buying this item will remedy this situation. If you actually believe that you are ugly, this advertising will be effective in getting you to buy the product. Remember that nobody has made profit on health, happiness, peace or love. These ideals are touted by many products, but the assumption is that they don’t exist naturally. These are states that exist no matter what happens, even if there was no economy at all.

Rewards Programs, Habits and Emotional States

What is the psychology operating in the use of loyalty programs? True loyalty comes from a great product, great service or a great experience, and this loyalty may stick around if these

characteristics are no longer true, but maybe for a limited time. Loyalty programs however generate loyalty by attaching a habit to an emotional state. This may have nothing to do with the product, service or experience in some cases. Some of the typical assumptions are referred to below.

Free Stuff is Great

There is the notion of getting something for free and regret if you miss out on that something. There is an assumption that getting something for free is always better than having to pay for it. Has anyone stopped to ask the question: Is this true? Garbage is free and is in large abundance, yet there are not marketing techniques to get you to take other people's garbage. Hazardous waste is also free in that a company producing it will gladly give it to you if you are willing to accept it. This will save the company disposal costs. Would you take it? What about someone else's debts? They would likely be given for free but it would be rare for someone to take them on. These examples are challenging the idea that free stuff is not always sought after. You may examine whether or not you want the item in question first, and then consider whether the free price is worth it.

Free Stuff Is Wanted

If someone handed you something that you really didn't want, but it was free, would you take it? Some people would take it no matter what, and others would not. There is an underlying notion that free things equals more abundance. There is a secondary notion that receiving a free item means I will be one step ahead compared to not taking the free item. This may not be true, as it turns out that free things tend to be the most expensive things. Free things may restrict your resources in other areas, like your time, energy spent, personal information being compromised, or affecting your freedom of choice by limiting where you shop.

I Am Special and the Company is Doing Me a Favour

Loyalty programs have to be paid by someone. They are not really free. If it is not worth it for a company to issue these programs, it would not do so. There are situations where it is profitable on average for the company to have a loyalty program, but not for each individual. An example is a credit card where some people pay off the balance entirely each month, and other people pay interest on a balance each month. The credit card will make money on average, but a person may or may not benefit. People like to feel as if they matter and that they belong. In this case, the rewards program is like a club membership, exclusive or preferred in some way. People put a lot of weight on rank and status. Loyalty programs are often tiered into gold, silver, and bronze so people can be focused on trying to obtain or maintain the highest status.

More is Better

There is an implied assumption that more is better. Is this true? More of something bad is not necessarily better. There is also the concept of "too much of a good thing". One ice cream on a

warm sunny day is perfect; one truckload of ice cream will lead to overload and sickness. More rewards are assumed to be better. A larger number of rewards are also assumed to be better, even if they don't translate into more value for the customer.

Once I Start Chasing This Reward, I Have to Keep Going

Are you willing to let rewards lapse if you don't see a need to spend more money? Many people would not because the loss of points would be treated with regret, and many people would want to get the reward even if it leads to throwing good money after bad. Can you give up the points at any time if it did not make sense to keep collecting them? This is one of the one questions to ask to see if being loyal has an emotional attachment, or is strictly about getting a better deal in the overall situation.

I Want Gratification

People like to be given rewards as if in a game. Why do you think games are so popular? There is a link between the rewards and the concept of validation and self-worth. The more rewards or points you obtain, the more your self-worth is reinforced and the longer the positive feelings last. Like instant gratification, feelings derived in this way are short lived. People generally will spend more money if there is a reward, and the gratification keeps them coming back to repeat the experience.

Cash Has Work Attached to it, Points Do Not

It is easier to spend points than cash, even if they are the same value. Focus should be put more on the value of what you are getting rather than the numbers or the feelings associated with spending the money. The same thinking is behind using credit cards versus cash or other cards. Cash is considered hard earned, and psychologically there is hesitation in using it compared to some indirect currency. This is why most programs reward you with points instead of currency, and then translate the points into things or cash. If the program gives you cash directly, your spending impulse would be reduced.

When Are Loyalty Programs Good For Me?

Loyalty programs can be very beneficial for someone if they understand their psychology and how they spend their money. You will have to assess for yourself if you are better off being in a loyalty program or not and if your habits do not change before and after being in the program. You may also want to consider whether your consumption habits are like the average person. If they are not, you may be able to profit from loyalty programs if they benefit you more than the average person, or cost less for you to participate in. The best scenario is if your habits are formed by your needs, and these rewards add to these needs without any attachments or compromises. You can change the status of these rewards programs at any time without any regret, sadness or feelings of loss. If you look at the loyalty programs, there is some item being given to you only after you buy other items. What are your reasons for joining a rewards

program? You may want to rephrase this question by saying: how does getting these rewards make you feel? If you have been in a program for a length of time, ask yourself if these feelings have changed since you joined. Since emotions are what drive most decisions, tap into what emotional state you are in when these decisions come up and you will understand why you want these rewards.

Contact me, Joe Barbieri by email at joetheinvestor.today@gmail.com, or by telephone at 647-286-8020 for an independent consultation on what your options are. **Note: This site is intended for people who want to learn about the world of investments and how to research for themselves. If you would like to buy or sell investment products, or specific advice on investment products, tax or legal issues, please consult your investment advisor, accountant or legal counsel.**

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