

*The Hong Kong Polytechnic University
Department of Logistics and Maritime Studies
Research Seminar*

An Analysis of "Buy X, Get One Free" Reward Programs

by

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**Date: 20 August 2019 (Tuesday)
Time: 11:00am - 12:15pm
Venue: M802, Li Ka Shing Tower
The Hong Kong Polytechnic University
(Conducted in English)**

Abstract:

This paper investigates the effects of reward redemption hurdles in customer reward programs. Our research context is "buy X, get one free" (BXGO) reward programs, which incorporate two common redemption hurdles: a redemption threshold (X purchases are required for a free product) and an expiry policy (unused reward points are lost after T periods of inactivity). Our analysis leads to the following results. First, both redemption hurdles create "points pressure," such that an incremental purchase becomes more valuable as a consumer's reward points approach the redemption threshold or the expiration date. Second, a BXGO program can do price discrimination based on consumers' shopping probability. Third, a BXGO program can create a win-win for the seller (higher profit) and the consumers (higher aggregate consumer welfare), compared with not offering a reward program. Fourth, if consumers derive transaction utility for the rewarded product, a BXGO program can be viable even when reward points never expire, which rationalizes why many BXGO programs choose not to stipulate an expiration date. We discuss the managerial implications of our results.

This is a joint work with Yacheng Sun from Tsinghua University and Dan Zhang from University of Colorado Boulder.

Bio:

Yan Liu is currently an assistant professor of operations management in Tianjin University, China. He obtained his Ph.D from University of Minnesota in 2015 and his research interest lies in revenue management and pricing, interface between operations management and marketing, and social operations management. His work has appeared in leading journals, such as *Management Science*, *Operations Research*, and *Production and Operations Management*.

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All are welcome!