# Point Redemption Matters: A Response to Murthi, Steffes, and Rasheed (2011)

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**Abstract**

In a paper investigating the relationships between affinity, rewards, and non-rewards non-affinity credit-card customers, Murthi, Steffes, and Rasheed (2011) published industry-challenging findings that rewards-card customers are less profitably than non-rewards card customers for firms. This paper will articulate two opportunities for further research based on their study: the full customer relationship (not just card relationships) of rewards and non-rewards credit-card customers and the level of redemption by rewards-card customers.

Murthi's et al. study investigated the card relationship solely and not the value brought by the customer in other products with the firm. This paper investigates the profitability of rewards and non-rewards customers in terms of product profitability (the card relationship itself) and in terms of total relationship profitability (the profitability of all the services held by a customer in addition to the card relationship).

Murthi's et al. (2011) paper did not distinguish between the levels of redemption among the rewards-card customers. This paper investigates the product and relationship profit of customers who have redeemed points at various levels over a two-year period: less than 10,000 points; more than 10,000 points; less than 20,000 points; and more than 20,000 points.

The paper opens with a description of the findings of Murthi et al. (2011). Definitions are presented of all groups under investigation. The data were collected from a $370M credit union in the southeast. The profit calculation is articulated and explained as to how it differs from the Murthi et al. methodology.

The sample consisted of credit card holders having opened a card account prior to June of 2015. A census of 556 customers was utilized from the population of rewards cardholders. A random sample of 556 customers was selected from the non-rewards cardholders. When investigating the subsets of points redeemers among the credit card group, sample sizes became much smaller. For example, only 142 customers of the 556 had redeemed any points in 2014 or 2015. Of the 556 rewards cardholders, 89 redeemed more than 10,000 points. Only 30 cardholders redeemed more than 20,000 points within the two-year window.

The hypotheses for this study involved the differences in product and relationship profit between rewards and non-rewards credit cardholders. Hypotheses regarding the product and relationship profit between different tranches of rewards redemption were also tested. All tests were conducted with bootstrapped independent *t* tests. The findings support the contention that evaluating rewards cardholders based on redemption behavior has scientific merit.

This study found that non-rewards customers were less profitable at a product level, but the mean difference in product profitability was non-significant ($p$ = .112, $d$ = 0.11). Non-rewards customers did have higher relationship profitability. However, that mean difference was also non-significant ($p$ = .683, $d$ = 0.03). Rewards cardholders redeeming at least 10,000 points were significantly more profitable than non-rewards customers at both the product level ($p$ = .002, $d$ = 0.76) and at the level of the overall relationship ($p$ = .001, $d$ = 0.75). Among the rewards cardholders, customers that had redeemed any points were significantly more profitable at both a product level ($p$ = .001, $d$ = 0.77) and at a relationship level ($p$ = .001, $d$ = 0.46) with notable effect sizes.

When segmenting the volume of rewards redeemed by rewards customers, even larger statistically significant effect sizes were found. Customers redeeming at least 10,000 points were significantly more profitable at both the product level ($p$ = .001, $d$ = 0.71) and at the relationship level ($p$ = .003, $d$ = 0.83) than those redeeming less than 10,000 points. Customers redeeming at least 20,000 points were more profitable at both the product level ($p$ = .013, $d$ = 1.35) and the relationship level ($p$ = .008, $d$ = 1.39) than were those redeeming less than 20,000 points.

This paper contributes to marketing research related to loyalty behavior. One theoretical implication of these findings is that the proposition that loyalty, evident in use of rewards credit cards, correlates with profitability may be supported, contra Murthi et al. (2011). However, profitability may become evident only when a sufficient points-redemption level is realized. Such a phenomenon may support the theory that co-production of value is of benefit to firms because redeeming rewards points is inherently a co-production process. The intensity of loyalty apparent with redeemers supports loyalty frameworks such as Curran and Healy (2014) and Dick and Basu (1994). A practical implication of these findings is that rewards-card marketers, within a retail-banking context, should consider encouraging rewards redemptions to improve the product and relationship profitability of rewards-card customers.

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**Keywords:** credit cards, loyalty, loyalty programs, point redemption

**Relevance to Marketing Educators, Researchers, and Practitioners:** This paper contributes to research involving co-creation of value. Practitioners are provided with justification for segmentation criteria involving point-redemption levels of rewards programs.

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**TRACK:** Consumer Behavior/Marketing Research