Behavior Follows Rewards

We know the principle. Optimizing the practice is the challenge.

by Brian Woolf (June 1, 2015)

Behavior follows rewards is the simple phrase that encapsulates the findings of behavioral psychologists, led by Harvard's B F Skinner. Very simply, it means that people (and animals) respond to rewards and incentives. The response can be positive (desirable rewards/incentives) or negative (usually avoidance) if the "reward" is undesirable or unpleasant. This truism is one of the pillars of marketing.
In concept it's easy; in practice it's hard. For example, it's easy to generate behavior to increase sales by 5%—just chop prices and customers will increase their spending. (Alas, you may also drop profits by even more). A marketer's response to this 5% challenge is to structure the incentive or reward in such a way as to minimize the loss or, ideally, increase profits as well.

What's the Objective?
Offering incentives and rewards is not difficult. What is difficult is having them lead to profitable results, which requires having objectives and constraints.

So for each significant marketing/promotional plan, a few critical questions should be asked upfront:

1. What's our objective? (Sales, Gross Profits?)
2. What behavior are we seeking? (More visits, shop more departments?)
3. From which customers? (New, lapsed, irregular, low, high, decliners?)
4. Over what period? (Week, month, quarter, year, three years?)
5. What are our options? (What 3 rewards/incentives we think are best?)

Some examples:

1. A Customer Card Program is planned with the goal of increasing sales and loyalty. The primary incentive/reward is a 1% rebate on spending each quarter.

   Comment: The intent is noble, the method weak. Why?—because most of the cost will be ineffective and simply increase your costs. Most customers will sign up for your card because you are offering a "freebie", an automatic rebate of 1% of their spending, regardless of how often they visit and the amount they spend. As a change in their behavior to increase their spending (your goal) is not a requirement, at least 70% of your existing customers are unlikely to increase their spending. Question: Will the other 30% of your customers increase their spending enough to pay for the 0.7% sales cost increase triggered by the other 70%? Answer: Usually, no. Option: Instead, give rewards to high spenders by crediting, say, 300 points, each month to customers spending over, say, $200 (which reinforces the behavior of your Best Customers) and, in addition, incent all customers with bonus points on selected Specials, Temporary Price Reductions (TPRs), and high margin store items. This approach rewards for your highest spenders (and encourages them to return) and offers, essentially at no cost, an incentive to all customers to buy more when shopping.

2. A Customer Card Program is being launched with the enticement of a 500-point (value $5) bonus for each new sign-up in the opening month.

   Comment: Why? If the card program provides value you don't have to pay money to customers to join. Two possible options to consider: (1) display 5-10 popular items at the front of the store, each with 100 Bonus Points, so that interested customers will buy and mentally and emotionally experience the value of the new program and/or (2) follow the typical Japanese introduction: charge $5 per person for a card to join (and $2 for each replacement card); their belief is that their card offers significantly more value than this entry fee and only regular customers should sign-up.

3. A Baby Club is planned offering members $5 for every cumulative $100 spent on Baby products.

   Comment: The big behavioral problem here is that it is open-ended, meaning there is no penalty if you don't increase your spending—you still receive your award whether it takes a month or a year, ie, there is no meaningful incentive to increase your Baby purchases (which we assume is the program's goal). Option: Instead of the $5 certificate, offer a regular emailed newsletter (provided a member's quarterly spending remains above a designated threshold) with relevant information and baby-related (primarily manufacturer-sponsored) coupons. This option still provides mothers with babies an incentive to spend while, at the same time, provides complete cost flexibility for the retailer.

Which Type: Economic or Egonomic?
Man is an economic animal in search of self-importance.

Another marketing challenge is whether the best way to achieve a specific objective is by offering customers economic or egonomic rewards, ie, hard rewards/incentives that have a financial outcome or soft rewards/incentives that appeal more to the ego such as Valentines or Christmas Day surprises or Access Rewards (eg, invitations to wine tastings or special cooking school evenings—"bragging rights" are a strong ego motivator). The answer of course is that it depends upon the program's 5 objectives (earlier).

What Frequency?
The ultimate goal of every retailer I know is to have a strong pattern of shopping behavior over the long term. Two common approaches to achieve this goal are continuity programs (rewards for spending over a threshold amount of money in, say, 6 of 8 weeks); and targeted reward programs encouraging customers to come back and spend more.

The second option seems simple but as this article is about behavior I shall turn to B F Skinner for his thoughts on the subject. One can reinforce a customer's behavior with offers on a regular basis, eg, every 4 weeks, or offer intermittent rewards which can go on forever, eg, a reward/incentive for the first $100 spent, another at $200, then $400, $800, $1600, $3200, etc. My reading of Skinner suggests he prefers the latter as the better path to building individual customer long-term loyalty. The more a customer shops, the less she expects to be rewarded, but she appreciates it all the same. She still feels important! In addition, the reward comes at irregular times and acts as a pleasant surprise.

Closing Thoughts

Marketing plans should always start with the end in mind, the customer behavior we seek, and the activity we do not wish to reward.

Understanding Skinner is, to me, a marketing requirement. Fortunately, his books, and books written about his behavioral findings, are easy to read.

As some of the above examples show, in retailing we often forget what our marketing goal is when we are considering programs. The ultimate classic (which I read 30 years ago and keep rereading) on this subject is ... *On the Folly Of Rewarding A, While Hoping for B*, by Steven Kerr (available on Google).

One section is particularly brilliant: Kerr's comparison of the motivation of Viet Nam vs World War II soldiers is the epitome of behavioral motivation. May you find a way to apply it as you work to understand and motivate your customers. After all, why reward customer behavior A when what you really want is customer behavior (result) B?

About the author...

Brian Woolf is a global leader in loyalty marketing and has written three definitive works on the subject, Measured Marketing: A Tool to Shape Food Store Strategy, Customer Specific Marketing, and Loyalty Marketing: The Second Act. He devotes his time to helping retailers develop, critique and strengthen their loyalty programs.

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