

THE HONG KONG POLYTECHNIC UNIVERSITY DEPARTMENT OF MANAGEMENT AND MARKETING

Departmental Research Seminar

Strategic Competition in Two Currencies: Dollars and Points

By



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Date : 16 Sep 2026 (Wed)
Time : 10:30 am – 12 noon
Venue : DE306, PolyU

Abstract

Many loyalty programs award consumers a proprietary points currency that accumulates over time and can be redeemed for future purchases, effectively giving firms two pricing instruments: a dollar price and a points price. We study how this two-currency structure reshapes competitive pricing incentives in a two-period Hotelling model where a fraction of consumers enroll in loyalty programs and receive a point endowment in period 1. In period 2, firms simultaneously set prices in dollars and points. We characterize subgame-perfect equilibria and identify a simple organizing principle: points become an active strategic instrument when the firm-side value of redeemed points exceeds consumers' effective opportunity cost of spending them. When this condition holds, points soften price competition in both periods relative to the no-reward benchmark, raising equilibrium prices and total discounted profits. When it fails, the program collapses to a one-currency benchmark and generates no strategic pricing advantage. We show that this two-currency mechanism differs fundamentally from behavior-based pricing, which intensifies competition, and from switching-cost models, which create exogenous consumer lock-in. Extensions incorporating point expiration, endogenous reward endowments, and heterogeneous point valuations reinforce the central mechanism. Our results offer a conditions-based explanation for why some loyalty programs are highly profitable while others are not.

Prof. Nanda Kumar is a Professor of Marketing at the Naveen Jindal School of Management, University of Texas at Dallas, where he has been on the faculty since 1999. He earned his Ph.D. from the University of Chicago Graduate School of Business in 2000, following an M.S. in Computer Science from the University of Maryland and a B.Tech. in Computer Science and Technology from the Indian Institute of Engineering Science and Technology, Shibpur. His research builds analytical and empirical models of competitive strategy, pricing, channels of distribution, and advertising, with work spanning supermarket pricing and promotions, product bundling, loyalty programs, and luxury and platform markets. His research has appeared in *Marketing Science*, *Management Science*, *Journal of Marketing Research*, *Quantitative Marketing and Economics*, *Information Systems Research*, *Journal of Retailing*, and *Journal of Economic Theory*. He has served on the editorial board of *Marketing Science* and as an ad-hoc associate editor for *Management Science*, and has advised eight completed doctoral students across Marketing and Information Systems.

All interested are welcome.



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