A Relationship Account of Marketing Rewards

Developing strong relationships between a brand and its customers is one of the most important goals bestowed upon marketing managers. Indeed, evidence shows that strong customer-brand relationships ultimately lead to increased profitability. As such, marketers employ various tactics to foster relationships with their customers. Among these, a commonly used tactic involves rewarding customers for engaging with a brand. In this research we argue that the widely adopted practice of using conditional rewards to drive customer-brand relationships might in fact fail to foster a connection between a brand and its customers. Instead, we propose that unconditional rewards may be more effective to foster customer-brand relationships. Data from a large scale reward program, as well as three laboratory experiments, provide systematic evidence for how conditional versus unconditional rewards affect customer-brand relationships, and shed light on the underlying psychological process.

Structural Analysis of Multi-Channel Demand

In this paper, we propose a unified utility framework to study multi-channel demand. Our structural model explains a comprehensive set of demand outcomes as a function of prices and retail proximity, including the frequency with which consumers shop, how much they spend per purchase occasion, whether they buy from the online (web) or retail channel, and how they allocate expenditures among multiple product categories. We incorporate potential differences in the ability of the two channels to reduce uncertainty about product attributes, which will affect a consumer’s channel choice depending on the expected size of the shopping basket. For example, physical inspection of goods in the retail channel provides additional information about product fit.

We estimate the model using the purchase histories of approximately 10,000 randomly selected customers from a firm that uses both online and retail channels to sell directly to consumers. The firm doubled its retail footprint over our two year observation window, providing rich variation in retail store proximity. We find evidence of channel complementarity through increased overall shopping frequency as the distance to retail outlets decreases, accompanied by increased substitution from online to retail formats. As store distance decreases, retail revenues increase at approximately twice the rate that online revenues decline. In a series of counterfactual experiments, we further demonstrate how our model can be used as a decision tool for managers to identify promising locations for new physical stores and to explore channel-based price discrimination policies.
Pain and Preferences: Observed Decisional Conflict and the Convergence of Preferences

Decision making often entails conflict and agony. In many situations the symptoms of such decisional conflict are conspicuous. Whether we observe these decisions in real time or learn about them post-hoc we are often exposed to (or learn about) the extent to which the decision maker experienced choice conflict. This article investigates whether learning about other people's decisional conflicts impacts our own preferences and why. The authors find that observing others’ emotional conflict and agony over an impending decision triggers preference convergence. In so doing, this paper focuses on an understudied aspect of social influence; namely whether observers' preferences are not only influenced by an actor's ultimate choice, but also by the processes leading to this choice. For example, in one experiment, participants' real monetary donations to one of two charities converged to those of a paid confederate that agonized over the decision. Six studies demonstrate this effect and show that it is triggered by a greater sense of empathy and shared identity with the conflicted actor. Accordingly, the studies show that the effect is more pronounced for individuals with a greater tendency to empathize with others, and that convergence occurs only if the actor’s conflict is deemed warranted to the decision at hand. The authors also demonstrate the important implications of this effect in contexts that involve group decision-making.

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Signaling in Online Credit Markets (joint with Kei Kawai and Ken Onishi)

We study how signaling affects equilibrium outcomes and welfare in markets with adverse selection. Using data from an online credit market, we estimate a model of borrowers and lenders where low reserve interest rates can signal low default risk. Comparing a market with and without signaling relative to the benchmark case with no asymmetric information, we find that adverse selection destroys as much as 16% of total surplus, up to 95% of which can be restored with signaling. We also find the credit supply curves to be backward-bending for some markets, consistent with the prediction of Stiglitz and Weiss (1981).