Creare Consumatori Multicanale ed Aumentare la Profittabilità della Customer Base tramite Campagne di Marketing: Un Field Experiment

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Abstract

One of the most intriguing and managerially relevant findings in the multichannel customer management literature is the positive association between the multichannel customer and profits. The question is whether this is an actionable, causal relationship. Specifically, can marketing campaigns be designed to turn single-channel customers into multichannel customers, and in turn will these multichannel customers become more profitable to the firm? The purpose of our project is to conduct a field experiment to investigate this question.

There are several possible campaigns one could devise to produce multichannel customers. We manipulate two key aspects of campaign design: message and incentives. We investigate two messages – one where we directly communicate the benefits of multichannel shopping; the other where we emphasize the core value proposition of the firm. We also investigate the provision of financial incentives in the form of coupons and compare it to the case where no financial incentives are provided. Therefore, the communication that most explicitly points the customer toward multichannel behavior would be the multichannel message coupled with financial incentives. The least explicit approach would be the positioning message coupled with no financial incentives.

Keywords: Multichannel Shopping; Customer Profitability; Field Experiment; Treatment Effect on the Treated

Introduction

The ever-expanding multiplicity of channels through which customers can purchase from companies has produced the "multichannel customer". An intriguing finding related to multichannel customers is the growing consensus among academics and practitioners that multichannel customers buy more and are more valuable than single channel customers. This finding is highly important because it suggests a customer management strategy for increasing customer value – undertake marketing campaigns that produce more multichannel customers. Such customers should produce higher revenues and profits, thereby increasing their value to the firm.

However, recent literature points out that we still do not know the extent to which this positive association between multichannel behavior and customer value is *actionable* (Neslin and Shankar 2009). One issue of course is whether the association is causal or due to spurious factors such as self-selection or high levels of marketing directed at multichannel customers (Blattberg, Kim, and Neslin 2008). But even if the result is causal in the statistical sense, the studies that find this positive relationship are conducted in a *status quo* environment. That environment produces a certain amount of multichannel behavior and a certain amount of profits. The question is whether the firm can proactively intercede in that environment and create more multichannel behavior and more customer value.

Hence, the purpose of our work is to answer four main questions: (1) Can newly-acquired customers be turned into multichannel customers? (2) Does the newly created multichannel customer become more valuable to the firm? (3) How in practical terms can this transformation be accomplished, in particular, what types of messages and incentives work best? (4) Can the customers most likely to react favourably be identified and hence targeted in future campaigns?

To do so we run a field experiment with the cooperation of a multichannel book retailer.

Research Design

We obtained the cooperation of a major multichannel European book retailer for conducting the field experiment. The company sells books through stores, mail-order, phone and the Internet. Each channel shares the same assortment and price.

The company operates on a subscription business model, thus each customer must become a member in order to purchase, and all transactions and their timing are tracked. The firm sends its main catalog five times per year, and its other marketing activities are managed around each mailing, e.g., special promotions, price changes, etc. Consequently, customers make purchase decisions in a shopping context created by the current catalog. In our data we monitor five catalogue mailings (henceforth "periods").

Importantly, none of the firm's marketing activities is targeted according to channel usage. This allows us to consider the firm's current marketing activities as "baseline" and our field test delivers additional different types of communications and incentives to drive multichannel buying. Additionally, we benefited from a context in which newly acquired customers had never been encouraged to change their channel choice pattern prior to the field test. The cooperating firm never explicitly tried to move customers across channels, so the communications we sent in our test was entirely new to these new customers.

Marketing Communication Campaigns

We distinguish two key aspects of a marketing campaign designed to induce customers to become multichannel: the message and the incentive. We created a 2 × 2 design with message at two levels and incentive at two levels. In specifying these levels, we wanted to cover a range from highly explicit, overt urging of the customer to become multichannel, to a more implicit, less overt "nudge." We accomplished this as follows: The two levels of the message factor are: (1) a "multichannel" message extolling the benefits of multichannel shopping and making sure the customer is aware of the multichannel choices available, and (2) a "value proposition" message emphasizing the key selling points of the company, which entailed assortment, service, and special promotions. The multichannel message overtly urged the customer to become multichannel. The value proposition message encouraged the customer to buy more, which perhaps would result in the customer trying multiple channels.

The two levels of the incentive factor were: financial incentives available versus not available. The financial incentive was the provision of price discount coupons. While the incentive factor is crossed with the message factor, the nature of the financial incentives differed depending on the message. In the spirit of creating a "hard sell" multichannel campaign, the financial incentives for the multichannel message entailed three coupons, one for each channel. The idea was to provide direct incentive to use three channels, and a message that backed up why this was a good idea for the customer. For the value proposition message, there were three coupons but no specifications on which channels they could be used for. This was in the spirit of creating a more soft-sell campaign.

In summary then, we have four campaigns identified by message (multichannel versus value proposition), and incentive (financial versus non-financial). We label these "multichannel/financial" (MF), "multichannel/non-financial" (MNF), "value proposition/financial" (VPF), and "value proposition/non-financial" (VPNF). The campaign was delivered via a prominent card that was sent just few days before the catalog mailing.

Experimental design and data

The field experiment allows us to observe whether, and if so, which of the alternative marketing campaigns induce multichannel buying, then examine whether this translates to higher customer profitability.

We obtained two cohorts of customers (Cohort 1 and Cohort 2) who lived within at least one store's service area and who entered into a subscription agreement with the company after the last catalog mailed in 2009 (Cohort 1) and 2010 (Cohort 2) was sent. We refer to the period in which the customer entered into the subscription as the acquisition period; the latter periods are post acquisition. For Cohort 1 the acquisition period was the fifth and last period of 2009; their behavior was then monitored over the subsequent four periods in 2010. For Cohort 2, the acquisition period was the fifth period of 2010; they were observed over the next five periods in 2011, from January 2011 until January 7, 2012. This means that this last cohort was followed for five post-acquisition periods (see Figure 2). Cohort 1 was used to estimate a multichannel potential model, described subsequently, and that is the only way in which their data are used. Cohort 2 was the experimental cohort, randomly assigned to different marketing campaign treatments.

For Cohort 2 we created four treatment conditions: multichannel/financial (MF); value proposition/financial (VPF); multichannel/non-financial (MNF), and value proposition/non-financial (VPNF), plus a control group.

We randomly selected customers to be included in different treatments and in the control group. On January 7th, 2011, the beginning of period 1 for Cohort 2, customers included in the treatment conditions received one of the above-mentioned cards one to three days before the catalog was mailed to them. A card reminder was included in the catalog cover. By contrast, customers allocated to the control group did not receive any communications except the catalog. A second card was then sent using the same procedure, i.e. card then catalogue, on the 10th of March, the beginning of Period 2, to the same customers. On May, 20; July, 29; and October, 7 respectively, a third, fourth, and fifth catalog was mailed to all customers both in treatment and control conditions without any further communications related to channel usage. The firm recorded all consumer transactions during these five periods. We therefore have information on: which channel was selected by each customer on each purchase occasion, the date of each purchase, and how much was spent.

Analysis

Our analysis entails four parts: we estimated and evaluated a multichannel potential model using data from Cohort 1 customers. This can be viewed as a database

marketing predictive model (Blattberg, Kim, and Neslin 2008) of whether a customer naturally become multichannel; we used this model in two ways: (1) as a covariate for enabling us to discern more clearly the impact of the treatments, and (2) as a variable to interact with treatments to uncover whether response to treatment varies according to multichannel potential. This allowed us to identify customers who should be targeted by specific treatments.

Second, we used the multichannel potential model to predict whether the customers in Cohort 2 are likely to become multichannel on their own, and used these predictions as a covariate in analyzing the descriptive statistics and interacting these predictions with treatment. This provided us with a more precise "read" on the impact of the treatments, and generated guidance on whether there are interactions between treatment and potential that could help in future targeting. Third, we analyzed the impact of becoming multichannel on customer profits.

Steps 3 and 4 together tell us (1) which if any treatments created multichannel customers, (2) which treatments should be targeted based on multichannel potential, and (3) whether multichannel behavior translates into higher profits.

Results and Conclusions

Our results show that a marketing campaign can trigger multichannel shopping (see Table 1). The multichannel message coupled with no financial incentive (MNF) achieves this, especially for customers with a very low *a priori* propensity of becoming multichannel. By contrast, the financial campaigns not only do not work, but may produce a negative effect in terms of multichannel shopping among customers with a high pre-disposition towards the multichannel usage, who maybe would have become multichannel spontaneously if financial incentives had not been offered.

We also examined the link between multichannel shopping and customer profitability, answering the question of whether newly created multichannel customers become more valuable to the firm. Our results show that multichannel shopping has a positive and significant impact on customer profitability. Hence, when the customer becomes multichannel she generates on average an additional profit. Our results also indicate that the "self-selection" explanation provided to explain the higher purchase volumes observed among multichannel customers (see Blattberg, Kim and Neslin 2008, p. 639) is not supported.

Overall these results confirm the thesis of our research, that a marketing campaign can be designed that produces more multichannel customers, and in turn these customers are more profitable. We show that the particular campaign that does this – a benefits-of-multichannel message not coupled with a financial incentive – works especially well on

customers who *a priori* would not have been expected to become multichannel on their own. This is a sensible result and suggests that while the campaign is profitable when mailed indiscriminately to a group of customers, it can be made even more profitable (on a ROI basis) by targeting customers who otherwise have low potential of becoming multichannel.

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Table 1: Estimates for Random Effects Probit Models

Variable	**Model A:** Basic Model	**Model B:** Basic Model + Int	**Model C:** Basic Model $+\alpha_t$	**Model D:** Full Model
MF (λ_1)	**.01**	**.03**	**.03**	**.05**
	(.03)	*(.03)*	*(.05)*	*(.05)*
VPF (λ_2)	**.01**	**.01**	**.01**	**.03**
	(.03)	*(.03)*	*(.05)*	*(.05)*
MNF (λ_3)	**.05***	**.06***	**.09***	**.10****
	(.03)	*(.03)*	*(.05)*	*(.05)*
VPNF (λ_4)	**.01**	**.02**	**.02**	**.04**
	(.03)	*(.03)*	*(.05)*	*(.05)*
Potential (δ)	**2.81*****	**3.25*****	**5.17*****	**5.89*****
	(.19)	*(.39)*	*(.11)*	*(.72)*
MF*Potential (κ_1)	-	**-.76***	-	**-1.39***
		(.43)		*(.81)*
VPF*Potential (κ_2)	-	**-.39**	-	**-.69**
		(.43)		*(.81)*
MNF*Potential (κ_3)	-	**-.21**	-	**-.23**
		(.43)		(*.81)*
VPNF*Potential (κ_4)	-	**-.59**	-	**-.91**
		(.43)		*(.81)*
α_1	-	-	**-4.18*****	**-4.19*****
			(.17)	*(.17)*
α_2	-	-	**-3.03*****	**-3.02*****
			(.12)	*(.12)*
α_3	-	-	**-2.98*****	**-2.99*****
			(.10)	*(.11)*
α_4	-	-	**-3.06*****	**-3.07*****
			(.10)	*(.10)*
α_5	-	-	**-3.04*****	**-3.05*****
			(.10)	*(.10)*
Constant (α)	**-2.23*****	**-2.22*****	-	-
	(.05)	*(.03)*		
Observations	154455	154455	154455	154455
Log likelihood	-12445.9	-12443.6	-12105.9	-12101.1

Likelihood-ratio test of nested vs. full model	$\chi^2(9)=689.67^{***}$	$\chi^2(5)=685.04^{***}$	$\chi^2(4)=9.58^{**}$	-

$^{*}p<.10$, $^{**}p<.05$, $^{***}p<.01$