Value of Promotions with Delayed Incentives: An Empirical Investigation of Gift Card Promotions

Today most retailers use consumer sales promotions to stimulate short-term sales by providing monetary incentives to end customers. In 2016, the total spending on sales promotions in the U.S. consumer packaged goods industry alone exceeded $100 billion, which represented about 50% of the total marketing budget. The nature and timing of the monetary incentive offered, however, varies widely across different promotional mechanisms and has implications on the process of promotion planning, on how customers respond, and on total sales. Our main objective in this paper is to empirically test and quantify the benefits (if any) of a recently emerging and widely used promotional mechanism: the gift card promotion. We achieve this objective by collaborating with a major fashion retailer that regularly runs these promotions on its online channel.

Gift card promotions provide customers an incentive to spend more than an expenditure threshold on regular priced products (as opposed to discounted products), by rewarding customers with a (promotional) gift card for future purchases. To participate in a gift card promotion and qualify for a gift card, customers need to spend beyond an expenditure threshold on regular priced products. A customer who qualifies for a gift card can redeem the card towards a later purchase. Therefore, gift card promotions provide consumers with a delayed incentive, in sharp contrast to traditional discount promotions, which offer instantaneous reward by temporarily lowering sales prices. This relatively recent form of promotion mechanism potentially stimulates sales both during the promotion period—also known in the retail industry as qualification stage—as well as later during the redemption stage when qualified customers visit the retailer to redeem the gift card. Hence, several retailers have started to regularly run gift card promotions that constitute a major part of their total marketing and promotion budgets.

Gift card promotions stimulate demand in the market by possibly boosting the hedonic
motivation of consumption utility. Note that purchasing a product at a regular price while the product is still in season serves two motives: to satisfy a utilitarian motivation and a hedonic motivation. These motives together define a customer’s utility from purchasing the product. Purchasing the product at a deep discount at the end of the season lowers the customer’s consumption utility due to a reduction in hedonic motives because fashion trends change quickly. For a budget-constrained customer who values consuming the product during the regular season, the gift card promotion provides the customer an incentive (even though delayed) to purchase at the beginning of the season. The expenditure thresholds provided in a gift card promotion are designed to encourage customers to spend more to receive a (higher valued) gift card. As a result, the threshold-effect of the promotion can potentially drive up sales during the promotion. In addition, the delayed incentive aspect of a gift card promotion may boost the retailer’s profits even after the promotion ends due to the following two reasons. First, a qualified customer needs to revisit the store to make a purchase to redeem her gift card. While the retailer incurs a cost equivalent to the value of the gift card that is redeemed, some of this cost is recovered if the customer is induced to spend more than the value of the gift card. Second, the temporal separation between the qualification and the redemption stages of the gift card promotion results in several unredeemed gift cards, which lowers the retailer’s promotion costs.

In this paper, our goal is to understand and quantify the underlying mechanisms for when, why and how a gift card promotion affects customers’ purchase decisions, and the resulting revenue for a retailer. We also quantify the true value of a gift card promotion by systematically isolating and quantifying factors that contribute to customers’ response. First, we empirically test and quantify the impact of gift card promotion on customers’ purchase behavior during the promotion. In particular, we test whether customers indeed increase their expenditure to participate in the promotion or, instead, they are given a gift card for a purchase they would have otherwise made. Second, we quantify customers’ purchase behavior during the redemption stage. For example, we test whether the redemption is
beneficial for the retailer when qualified customers return to redeem their gift cards. Third, we also isolate the impact of advertising the gift card promotion (through e-mails and/or website) on customers' purchase decisions from the true impact of the promotion to stimulate purchase. To do so, we quantify (positive or negative) how much of the purchase behavior (e.g., expenditure) can be attributed to advertisement effect.

To study our aforementioned research objectives, we collaborated with a major U.S.-based department store, which is regularly featured in the Fortune 500 list of companies. During this collaboration, we obtained a novel dataset from the retailer's online channel. The dataset we build for analysis is comprehensive and captures important aspects of online customer shopping behavior. Our analyses show that delayed incentive in the form of a gift card has a significant positive impact on customer expenditure during both qualification and redemption stages. During the qualification stage, a customer's expenditure increases by 31.45% or, on average, $198.65 per customer. We attribute 96.34% of this increase in expenditure to participation in the promotion and the remainder 3.66% to the advertisement effect of the promotion. Therefore, advertising products in the promotion can attract greater attention from customers resulting in higher sales, even if customers do not participate in the promotion. In addition, gift card promotion increases net revenues by increasing customer purchase probability by 17.54% during the promotion. However, we do not find a positive effect of advertisement on purchase probability of customers who do not participate in the promotion. We also find strong evidence for gift card-induced spending—customers who redeem their gift cards spend on average, $101.15 more than the face value of their gift cards.