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

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Abstract: Gift cards have become a popular vehicle for promotion campaigns run by many department, consumer electronic, and online retail stores. These promotions are designed to encourage customers to spend more during the promotion (qualification stage) in lieu of a future promotional gift card that is redeemable at the retailer (redemption stage). Using a proprietary data set from a large luxury department store, we study the impact of gift card promotions on customer purchasing behavior and its effectiveness as a promotional tool for retailers. We model the customer purchase, participation (in promotion)/re redemption, and expenditure decisions to understand how important customer characteristics (such as past purchasing behavior), promotion characteristics (such as expenditure thresholds, gift card value) and communication characteristics (such as e-mail marketing efforts by the retailer) impacts their response at the qualification and at the redemption stages. We jointly model customer decisions in the two stages to account for the correlation that exists between customer choice process and their respective expenditure decisions. We illustrate how the customer response model can be utilized to target online gift card promotions. Using propensity score matching, we quantify the direct (e.g., due to participation) and the indirect effect (e.g., advertising value) of the gift card promotion in the qualification stage. We show that 66% of the total incremental benefit during the promotion is due to the indirect effect, quantifying the strong advertisement value of online gift-card promotions. Yet, we also show that there is a positive carryover effect of the advertisement immediately following the qualification stage. At the redemption stage, we show that customers spend significantly more than the gift card face value. Thus, gift card promotions are successful in creating incentives for customers to return to the store in the future. In the context of fashion industry, where customers are known to hold their purchases until the markdown season, we discuss how gift card promotions can be an effective in-season mechanism to stimulate retailer's profit. (joint work with Özalp Özer and Serdar Şimşek)

Bio: Bharadwaj is a Ph.D. candidate at the Naveen Jindal School of Management at the University of Texas at Dallas. Broadly, his research explores the impact of statistical learning and the economics of information sharing in classical supply chain coordination and retail operations problems. His research provides a framework for incorporating real-time data into decision models and empirically validates supply chain/pricing theory using field data. He has collaborated with companies from travel and retail industry, to also provide insights of practical relevance through his research.