



## Ad Hoc Promotions Can't Buy Customer Loyalty

**Short-term promotions disconnected from your overall strategy will not give your business a lasting lift.**

“You have to give to get” seems to be the motto of many companies looking to raise demand for their products or services. They often pour big budgets into short-term giveaways in the hope that the resulting growth will justify the cost. For example, a **recently leaked report** puts Uber’s marketing expenses at \$541 million for an 18-month period starting in early 2014, with promotions and price rebates alone costing \$129 million.

In addition to the conventional approach of offering customers price rebates, campaigns involving cause-based marketing in the hope of building customer loyalty are also being aggressively used. In such campaigns, companies try to stake out a “socially responsible” positioning partner with charities - offering to donate money to a worthy cause with each purchase. In North America alone, the **overall size of charitable giving** involving cause-based initiatives was \$2.0 billion in 2015, with an annual growth rate of four percent indicating an upward trend.

Whether using discounts or philanthropic campaigns, companies usually share the same motive—to spark consumer interest, which should theoretically outlast the promotional period and boost long-term business. The problem is that there has been little rigorous real-world experimentation to verify whether, and under what conditions, such

short-term promotions actually work.

In collaboration with an online taxi booking company in Asia, we recently executed a “field experiment” to study promotion take-up and subsequent taxi booking behaviour among groups of randomly selected customers that were sent different kinds of promotions. The findings from the study suggest the need to temper our expectations regarding what short-term promotions can achieve, as described in our working paper “**Philanthropic Campaigns and Customer Behaviour: Field Experiments in an Online Taxi Booking Company**”.

### Experimenting with promotion

Starting with an anonymised database of the taxi company’s Singapore-based customers as of 2015, we constructed random groups of customers as a starting point for our experiment. Customers within each “treated” group received a text message containing a promotional code, different for different groups and valid for five days in all cases.

Some of the customer groups received promotions whose redemption triggered a donation from the taxi company (at no extra cost to the passenger) to a relief fund for the 2015 Nepal earthquake (a later round of promotional texts used Singapore Cancer

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Society as the recipient to see whether a local charity would draw more participation). Several versions of the text message were sent, each stating a different donation amount from SGD 1 to 10. (All redeemed donations were indeed furnished to the charities.)

Other customer groups got text messages with promotion codes good for a discount of up to SGD 10 off their next ride. We tracked not only how many customers took advantage of the promotions but also whether there was any discernible change in their purchases compared to their prior booking history, as well as those of a “control group” not receiving any promotions.

### Results from the field experiment

On the whole, only about one percent of the entire sample group took up any of the offers - not too unusual for take-up rates of SMS-based promotions. What is perhaps more interesting is that the discount-linked promotions were redeemed at rates an order of magnitude greater than philanthropic ones of the corresponding amounts.

When we compared promotional participation to the company’s pre-existing purchase data, we found that the promotions typically spurred extra bookings over and above those that would have been placed anyway. However, this effect did not persist and there was little evidence of a net increase in non-promotional bookings following a promotion.

### Philanthropic campaigns and the “warm glow”

Most intriguingly, we found robust evidence supporting a “**warm glow**” hypothesis, that participation in charity-linked promotions should be less sensitive to dollar amounts, compared to discount-linked promotions. The participation rate for the SGD10 donation was only double the SGD1 donation’s rate, while the SGD10 discount had 3.6 times as many redemptions as the SGD1 discount.

One of the oft-noted risks of discount-based promotions is that consumers can become more price-sensitive as a result, i.e. more prone to the sort of bargain-hunting behaviour that leads to price wars.

Our hypothesis was that charity-linked promotions possibly represented a better investment, as brands associating themselves with a cause worth supporting would conceivably win greater loyalty than companies offering temporarily low prices.

Surprisingly, we found that even charity-linked promotions did not lead to increased taxi booking frequency in the weeks immediately following the

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promotion. Instead, just as with the discounts, the only significant difference in activity between the groups receiving a promotion and the control group was in the promotional ride itself.

### Managers and investors beware

Our experiment was admittedly limited in scope. We had restricted our sample to the taxi company’s existing customers rather than targeting people who hadn’t used the service before. Our findings may be sector-specific and geography-specific, being tied in part to the nature of the service or the fact that the experiments had been carried out with Singapore-based customers.

We believe, however, that our findings present persuasive evidence that short-term promotions may not always produce the expected long-term benefits. Managers and investors should recognise that promotional campaigns may appear to have significantly increased market share (in the form of immediate take-up) without actually creating any durable value for the company in the form of persistent demand. At a minimum, this means that managers should ensure—and investors should demand proof—that a marketing strategy has legs before committing tens of millions of dollars to it. When in doubt, put it to the test with a rigorous experiment!

However, we do not mean to imply that philanthropic promotions such as the ones we employed cannot create value. Our conjecture is that successful campaigns are those that are perceived as authentic. This is more likely to occur when a company has invested in developing a consistent track record of positive societal engagement rather than just thinking of philanthropic campaigns as a one-off marketing tactic apart from the overall business strategy.

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