

BILL MOIR MARKETING SPEAKER SERIES



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2 – 3:30 PM | 530 Drake Centre

The Effect of Opening of Discounted Stores on Customer Behavior: Evidence from a High-End Department Store Retailer

Many high-end department store retailers operate off-price or discounted versions of their premium stores, often as a separate channel. In this study, the authors empirically examine the effects of a high-end retailer's opening of discounted stores on customer behavior. Leveraging a unique customer-level transaction dataset spanning pre- and post-opening of multiple discounted stores, the authors systematically examine the effects of opening of discounted stores on customer behavior. Exploiting the staggered opening of multiple discounted stores and casting the analyses in a group-time difference-in-differences modeling framework, the authors attempt to establish the causal effect of opening of discounted stores on customers' spending and product returns behavior.

The authors find that opening of brick-and-mortar discounted stores results in a decrease in spending at the brick-and-mortar premium stores and increase in customer spending in the online channel. The authors attribute the substitution effect of opening of discounted stores on the premium stores to a value consciousness effect, whereby value conscious customers migrate to the discounted store. They propose and identify a product returns effect as the underlying mechanism that drives the complementarity effect of opening of discounted stores on the online store. The authors perform a series of robustness checks to rule out effects of confounding factors and to address concerns of endogeneity issues. Post hoc analyses based on Type-II Tobit model of discounted store incidence and spending at the customer level suggest that customers who recently bought from the retailer, those who frequently shop at the retailer, value conscious and multichannel use customers adopt and spend more at the new discounted stores. Based on the results, the authors offer implications for high-end multichannel retailers who also operate off-price stores.