

The Effect of Customers' Social Media Participation on Customer Visit Frequency and Profitability: An Empirical Investigation

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by Howard E. Covington Jr.

How Robert Tucker Built
SHOE SHOW, INC. into the
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Under the Radar

How Robert Tucker Built
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Mindy McWhorter King

Love Jason's Deli and so glad there is finally one close to me in Texarkana!! Lunch today was wonderful! You just cant top the Californian with a side of fruit!! Yum!!

Like · Comment · 8 hours ago near Texarkana, AR



Tammy Lackey Dodd

I ate at the Jason's Deli in Texarkana tonight. The food was wonderful and the service was fantastic. I definitely will be going back there to eat again.

Like · Comment · 23 hours ago



The Official Jason's Deli Fan Club Very glad to hear it!! :)

12 hours ago · Like

Write a comment...



Cindy Quihuis

DONT ever buy take-out salads, I ordered the Nutty Mixed-Up Salad without the chicken, and they only gave me LESS THAN A CUP of greens & the nuts/raisins/cranberries came mixed-up but it was mostly dried fruit. I'm allergic to raisins and cranberries. I don't see how it's gluten-free when I was deceived that this was the lighter side. Would you pay \$6.00 for that? I was so looking forward for more greens rather than 2 Tablespoons of dried fruit, WHAT A RIPOFF!!!!!! What are they charging me for the DAMN dried fruit that I can't eat! Yeah, it's the best salad if you DINE-IN but not TAKE OUT. LOUSY!

Like · Comment · Yesterday at 9:47pm



The Official Jason's Deli Fan Club Hi Cindy! Thanks for taking the time to let us know what happened. We're sorry the salad you ordered didn't live up to your expectations. The Nutty Mixed-Up Salad can be made specifically as you order it, all you need do is ask! Our order takers will be more than happy to make sure this salad is made for you without dried fruit or with extra greens...even on a take-out order. :)

12 hours ago · Like

Write a comment...



Anne Mardis O'Keefe

Please bring back the veggie muffaletta!!! It was so delicious. Why did you take it off the menu so soon?

Like · Comment · Yesterday at 7:02pm near Omaha, NE

Firms are Chasing Fans & Followers

- Social media spending expected to grow faster than any other form of online marketing (Forrester Research 2011)
- Firms are interested in building their “fan” base or “follower” base
 - Retailers: Macy's grew its customer fan base by 23% last holiday season to more than 3 million fans
 - Banks: “*Chasing Friends, Banks Go Social*” (WSJ 2011)
 - J.P. Morgan Chase hosted a \$1 million and \$500 each hour sweepstakes for users to “like” the credit card page



IBM report (2011): “social media is no longer the adorable baby everyone wants to hold, but the angst-filled adolescent- still immature yet no longer cute- who inspires mixed feelings”

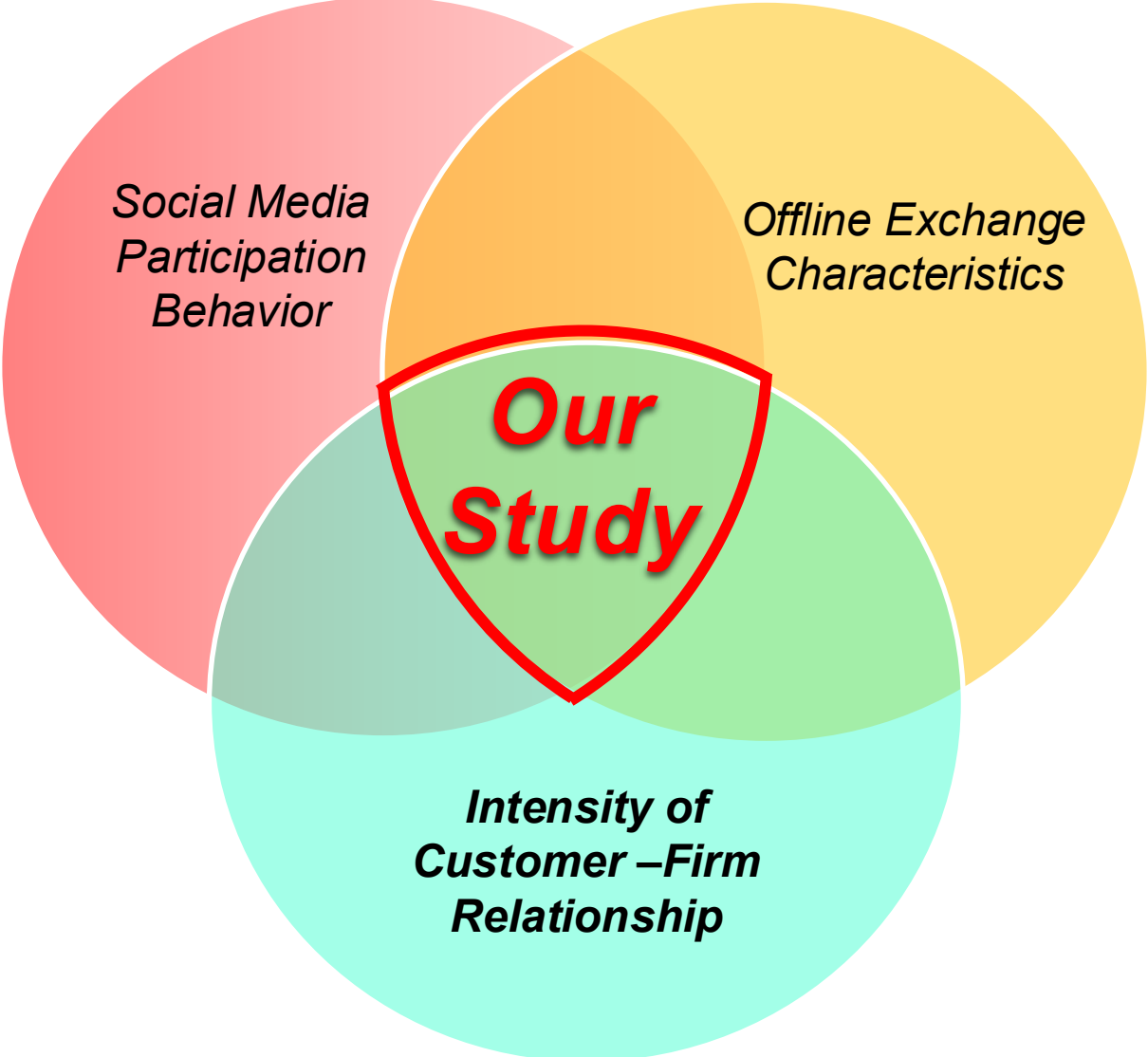
Motivation: So What?

- No study has analyzed market outcomes of social media participation at the **individual customer level** using **actual behavioral data**
- No study has linked customers' social media participation and their actual behavior using the **same** panel of customers
- No insights on the roles of offline (customer-firm) relationship characteristics

What does the literature say?

- Online reviews in social media \equiv Effective WOM (Dellarocas et al. 2004)
- Impact on online reviews on sales
 - Movies (Dellarocas et al. 2007)
 - TV shows (Godes and Mayzlin 2004)
 - Book sales (Chevalier and Mayzlin 2006)
 - Music (Dhar and Chang 2007)
- Limitations
 - Focus on user generated content (UGC)
 - Third party platforms
 - What are the implications for a retailer that is building a fan/follower base?
 - No analysis at the disaggregate consumer level
 - How does the behavior of those who participate in social media compare to those who do not?
 - No insights on customer segments/ “fan” base

Positioning of this Study



Research Questions

- What is the effect of a focal customer's social media participation on the intensity of customer-firm relationship?
 - Customer Visit Frequency
 - Customer Profitability
- What is the role of social media activity on the above?
- Does the effect, if any, depend on
 - Customer-firm relationship characteristics
 - How much customers buy?
 - What they buy?
 - Degree of buying focus?
 - Deal proneness?
 - Top selling products

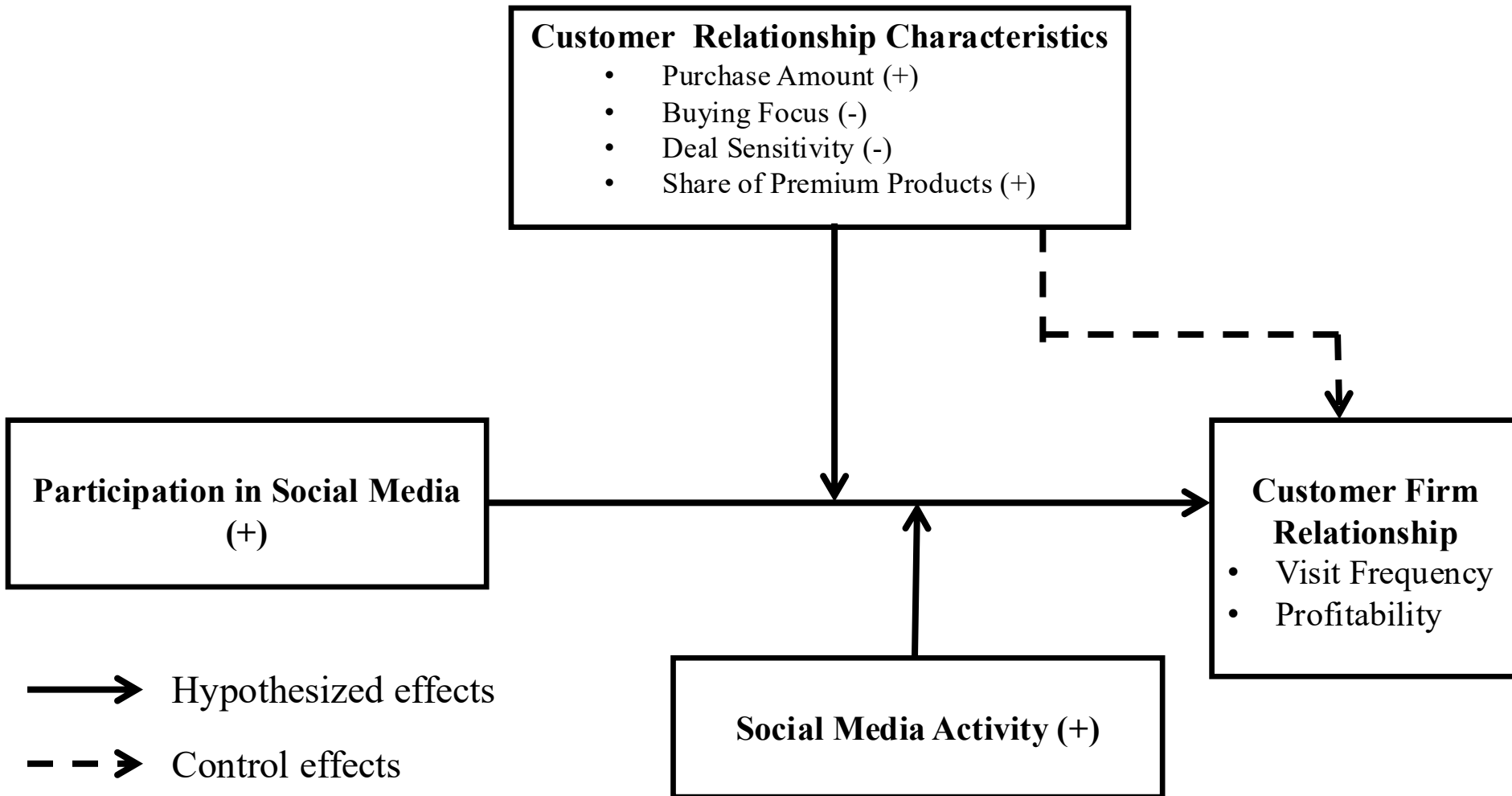
Our Approach:

Build a disaggregate customer-level model of customer firm relationship duration and analyze the effects of social media participation

How can participation in social media help customers?

- Can reduce search costs (price)
- Can reduce learning costs (new products)
 - Customers can learn from firm postings (awareness)
 - Customers can learn from postings of other customers (infer quality)
- Behavioral effects
 - Can increase switching costs
 - Participation can help consumers form favorable judgment about the retailers
 - Similar to mere-measurement effect (Morwitz et al. 1993)
- Source of entertainment

Conceptual Framework



Data and Modeling Challenges

- Difficulty in linking customers' participation in social media to their actual purchase behavior
 - Our Approach: Multi-step approach to identify customers who participate in social media efforts and link them to transactional data of a retailer
- Modeling challenges
 - Self-selection issue

Research Context

- Large retailer in the U.S
- Operates multiple stores and specializes in selling wine and similar products
- August 2009: The retailer started having a presence in a major social network website
 - Marketing campaigns that encouraged fans to join the social media page
 - No incentives were given to customers to join the retailer's page

Data: Sample selection

- Multi-step process
 - Survey to 5000 randomly selected customers from the retailer's database
 - To identify the customers who participated in the retailer's social media page
 - Match the survey with transaction data of the retailer based on fullnames/demographic/residence location information
 - Created unique customer ids to mask customer information and to track customer transaction behavior
- Sample: 287 customers who participate
 - Data time period: Aug 2009 to March 2011
 - Although customers can opt-out, no one did so during the data time period

Key Variables & Operationalization

Variable Description	Operationalization
Focal customer's participation in social media	= 1 if customer i is a fan of the firm's social networking page; = 0 otherwise.
Overall social media activity	The cumulative number of postings on the social networking site excluding those of customer i before time period t .
Purchase Amount	Average purchase amount (in dollars) of customer i during time period t .
Buying Focus	=1 if customer i buys the same product during time t ; = 0 otherwise (uses a calibration period).
Deal Proneness	Deal sensitivity, the proportion of products purchased on promotion by customer i during time t .
Propensity to buy premium products	Share of premium products purchased by customer i on shopping trip t .

Self-selection Issue and Endogeneity

- Difficulty in linking customers' participation in social media to their actual purchase behavior
 - Our Approach: Multi-step approach to identify customers who participate in social media efforts and link them to transactional data of a retailer ✓
- “Self-selection” issue: Unobserved customer characteristic can simultaneously affect purchase behavior and social media participation
 - Solutions?
 - Our Solution: Quasi-experimental design
 - Control group: Panel of customers who do not participate in the focal firm's social media efforts ✓

Self-selection Issue: Our Solution

- Selection bias problem
 - We do not observe the “*counterfactual behavior*” of participating customers
- Propensity Score Matching (PSM) in combination with Difference-in-Differences (DID)
 - Reduces bias resulting from both observables and unobservables (Stewart and Swaffield 2004)
 - Improves consistency of estimates (Cao et al. 2011)
- Extend DID to Difference -in-Difference-in-Differences (DDD) to test for hypothesized variables

Propensity Score Matching (PSM)

- Intuition
 - Select a group of non-participants who resemble the participants in everything, but the fact of participation in social media
 - Effect of participation= difference in (average) behavior between the groups
 - “Mimics” randomized experimental set up
- Uniqueness of our data
 - Leverage availability of data on customer characteristics before the launch of social media site
 - Selection of **similar** customers who do not participate

Implementation of PSM

Step 1: Estimation of Propensity Scores

Step 2: Choice of Matching Algorithm

Step 3: Assessment of the Quality of the Match

Step 4: Estimation of the Average Effect

Step 5: Sensitivity Analysis

Adapted from Caliendo and Kopeinig 2008

PSM: Covariate Comparison Pre and Post Matching

	Treat Group	Control Group		
		Before Matching		
	Mean	Mean	Mean Diff.	t stat.
PurAmt	59.50	72.83	-13.32	-3.0
BuyFocus	0.55	0.76	-0.21	-10.26
Deal	0.64	0.67	-0.03	-1.79
Premium Share	0.06	0.07	-0.01	-0.56
Loyalty	0.82	0.83	-0.01	-4.28
Age	50.45	56.13	-5.67	-7.13
Gender	0.44	0.40	0.03	1.86
Income (Log)	10.99	10.96	0.03	1.75

PSM: Covariate Comparison Pre and Post Matching

	Treat Group	Control Group					
		Before Matching			After Matching		
		Mean	Mean	Mean Diff.	t stat.	Mean	Mean Diff
PurAmt	59.50	72.83	-13.32	-3.0	62.60	-3.09	-1.07
BuyFocus	0.55	0.76	-0.21	-10.26	0.62	-0.07	-1.28
Deal	0.64	0.67	-0.03	-1.79	0.66	-0.02	-0.97
Premium Share	0.06	0.07	-0.01	-0.56	0.07	-0.00	-0.30
Loyalty	0.82	0.83	-0.01	-4.28	0.82	-0.00	-1.01
Age	50.45	56.13	-5.67	-7.13	51.40	-0.95	-1.62
Gender	0.44	0.40	0.03	1.86	0.43	0.00	0.11
Income (Log)	10.99	10.96	0.03	1.75	10.98	0.01	0.24
Race	0.87	0.86	0.01	1.67	0.87	0.00	0.20

Difference in Differences (DID) Model

- Customer Behavior Model

$$\log(Y_{ijt}) = \delta_{0j} + \delta_1 TreatD_{ij} + \delta_2 CParT_{ijt} + \delta_3 TreatD_{ij} \times CParT_{ijt} + \Theta X_{ij} + \xi_{it}$$

$i \equiv$ matched pair of customers, $j \equiv$ treatment /control group customer, $t \equiv$ time

Y_{ij} is either customer visit frequency or profitability

$TreatD_{ij}$ is the treatment dummy; and is 1 for treatment group customer and 0 for control group customer

$CParT_{ijt}$ is social media participation dummy; and equals 0 and 1 for periods prior to and post participation respectively

X_{ij} is a vector of control variables

DDD Model

- Moderating effects of hypothesized variables

$$\begin{aligned} \log(Y_{ijt}) = & \gamma_0 j + \gamma_1 TreatD_{ij} + \gamma_2 CParT_{ijt} + \gamma_3 TreatD_{ij} \times CParT_{ijt} \\ & + \gamma_4 TreatD_{ij} \times CParT_{ijt} \times PostingsStock_{ij} + \gamma_5 TreatD_{ij} \times CParT_{ijt} \times PurAmt_{ij} \\ & + \gamma_6 TreatD_{ij} \times CParT_{ijt} \times BuyFocus_{ij} + \gamma_7 TreatD_{ij} \times CParT_{ijt} \times Deal_{ij} \\ & + \gamma_8 TreatD_{ij} \times CParT_{ijt} \times PremiumShare_{ij} + \Omega X_{ij} + \varepsilon_{it} \end{aligned}$$

Median split to divide hypothesized variables (e.g., Purchase Amount) into high and low levels/types (e.g., Tucker et al. 2012)

Results: Frequency of Visits

Variables	DID model with no Controls	DID model with controls and customer fixed effects	DDD model with controls and customer fixed effects
<i>TreatD</i>	0.0508	0.0502	0.0342
<i>CParT</i>	0.0279*	0.1542*	0.1541*
<i>TreatD×CParT</i>	0.0619***	0.0509***	0.0500***
<i>TreatD×CParT×PostingsStock</i>			0.0002**
<i>TreatD×CParT×PurAmt</i>			0.0005***
<i>TreatD×CParT×BuyFocus</i>			-0.0405***
<i>TreatD×CParT×Deal</i>			-0.0436***
<i>TreatD×CParT×PremiumShare</i>			0.0837**
<i>PostingsStock</i>		0.0020**	0.0019**
<i>PurAmt</i>		0.0003***	0.0002***
<i>BuyFocus</i>		-0.0552	-0.0533
<i>Deal</i>		-0.0301	-0.0376
<i>PremiumShare</i>		0.0861***	0.0663**
<i>Loyalty</i>		0.0055***	0.0100***
R-squared	0.1821	0.4527	0.5545
*** p <.01, ** p <.05, * p < .10			

Results: Customer Profitability

Variables	DID model with no Controls	DID model with controls and customer fixed effects	DDD model with controls and customer fixed effects
<i>TreatD</i>	0.0098	0.0247	0.0927
<i>CParT</i>	0.0726*	0.0225*	0.0334*
<i>TreatD×CParT</i>	0.0578***	0.0550***	0.0505***
<i>TreatD×CParT×PostingsStock</i>			0.0007**
<i>TreatD×CParT×PurAmt</i>			0.0003***
<i>TreatD×CParT×BuyFocus</i>			-0.0170***
<i>TreatD×CParT×Deal</i>			-0.0110**
<i>TreatD×CParT×PremiumShare</i>			0.0315***
<i>PostingsStock</i>		0.0004**	0.0009*
<i>PurAmt</i>		0.0028***	0.0027***
<i>BuyFocus</i>		-0.1625	-0.1278
<i>Deal</i>		-0.1491	-0.1653
<i>PremiumShare</i>		0.0389**	0.0880***
<i>Loyalty</i>		2.1367***	2.1304***
R-squared	0.2168	0.5407	0.6246
*** p <.01, ** p <.05, * p < .10			

Summary of Results

Variable	Hypothesized Effect	Empirical Support
Main Effect		
Customer Participation in Social Media	+	✓
Interaction Effects		
Customer Participation × Social Media Activity	+	✓
Customer Participation × Purchase Amount	+	✓
Customer Participation × Buying Focus	-	✓
Customer Participation × Deal Sensitivity	-	✓
Customer Participation × Premium Product Share	+	✓

Notes: ✓ = statistically significant and in the hypothesized direction

Managerial Implications

- Nurture customer relationships through social media
 - Customers who participate in the firm's social media visit the firm about 5.2% more frequently
 - Customers who participate in the firm's social media also contribute more to the firm's bottom line
- Be wary, not all customers are created equal
- Create product based social media forums

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