

MARKETING COLLOQUIA

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Jian Ni

Associate Professor

The Johns Hopkins Carey Business School

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UPSELLING VERSUS UPSETTING CUSTOMERS? A MODEL OF INTRINSIC AND EXTRINSIC INCENTIVES

ABSTRACT: Upselling is a common practice in business that is associated with high profit margin. Yet empirical evidence suggests that upselling is negatively correlated with customer satisfaction. In this paper, we study the relationship between upselling and customer satisfaction in the framework of sales agents' incentive. On the one hand, sales representatives are motivated to upsell by the monetary incentive. On the other hand, sales representatives have the intrinsic motivation to achieve customer satisfaction, which is not tied to monetary reward. As exerting effort is costly, an agent optimally allocates efforts in the upselling practice and in serving customers to maximize personal utility. Using data from a national car rental company, we estimate a model of customers' decision to purchase add-on products and customers' satisfaction together with counter representatives' effort allocation decision. We find both monetary and intrinsic incentives are important for a sales agent's decision. We conduct counterfactual analysis to evaluate the implications of different incentive schemes on upselling, customer satisfaction and future business. We find that when doubling the commission rate for sales agents, the average upsell rate will increase more than doubled, but meanwhile the odds of customers choosing the firm in the future will decrease 5.5%.