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# Private Sales Clubs: A 21st Century Distribution Channel☆

Roger R. Betancourt [a,*] & Raquel Chocarro [b] & Monica Cortiñas [b] & Margarita Elorz [b] & Jose Miguel Mugica [b]

[a] *Economics Department, University of Maryland, College Park, United States*
[b] *Universidad Pública de Navarra, Campus de Arrosadia, Pamplona, Spain*

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**Abstract**

Private sales clubs are a novel service institution arising out of the Internet's ability to allow an exclusively online channel to distribute out of season or out of fashion inventories to a large set of customers. They have become a thriving industry in the 21st century. In this paper we enhance understanding of this technology mediated institution as a distribution channel. Furthermore, we show how to measure the impact of the distribution services it provides through the Internet on customer satisfaction and of the latter on economic performance. We rely on the technique of quantile regressions in this endeavor. The latter allows for asymmetries in the response function that have been noted as a major issue to be addressed in the analysis of both customer satisfaction and economic performance variables. Our most important empirical finding is that the distortions introduced by ignoring asymmetries in the response function with respect to customer satisfaction are extremely misleading for managers of private sales clubs.


*Keywords:* Online channels; Distribution services; Quantile regression; Private sales clubs; Customer satisfaction; Intentional loyalty

## Introduction

Our aim in this paper is to enhance understanding of a retail institution that emerged in the 21st century which functions entirely online, namely private sales clubs (PSC). From an economic perspective, this institution is of interest because it has become a global industry with its leading firm (Vente Privée) generating over 1 billion euros in yearly revenues since at least 2012. From a marketing perspective, it is of interest because it illustrates an exclusively online external discount channel with no firm in a brick and mortar channel as a direct competitor in most geographical markets. This is in contrast, for example, to Amazon. The latter started as an exclusively online distribution channel for books with firms in a brick and mortar distribution channel as direct competitors in many geographical markets, e.g., Barnes & Noble and Borders.

This paper uses PSC to illustrate two features of online channels identified and emphasized in a recent paper (Betancourt et al. 2016a: Propositions 1 and 3). Proposition 1 identifies a unique feature of online technology associated with the retailing of goods that had gone unnoticed in the literature: "*A 'typical' online channel allows separation across space and time of production, distribution and consumption for all distribution services*". While the technology mediation literature had emphasized spatial separability between a core service product and consumption or selected aspects of

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* Corresponding author.
*E-mail addresses:* betancou@econ.umd.edu (R.R. Betancourt), raquel.chocarro@unavarra.es (R. Chocarro), mcortinas@unavarra.es (M. Cortiñas), melorz@unavarra.es (M. Elorz), mmugica@unavarra.es (J.M. Mugica).

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distribution (Keh and Pang 2010; Schuman, Wünderlich, and Wangenheim 2012; Wünderlich, Wangenheim, and Bitner 2013), this emphasis did not capture the depth and extent of the phenomena identified by Proposition 1. These phenomena lead to important economic consequences of the PSC format affecting both the demand and supply of services in this channel. These consequences are discussed in the next section while presenting in more detail the main characteristics of this format.

A second feature of online channels illustrated by PSC, Proposition 3, is that "*online channels have maximum levels of outputs associated with the retailing of goods that can be substantially higher or lower than their brick and mortar counterparts*". For instance, the marketing literature has identified technological limits for online retailing of certain types of products characterized as sensory dependent items (Degeratu, Rangaswamy, and Wu 2000) and their importance for online retailing (Pauwels et al. 2011). This idea was extended in Proposition 3 by also incorporating economic considerations to identify how maximum levels of output for distribution services and their aspects can differ between online and offline channels. This second feature leads to the first contribution of this paper. It provides an explicit theoretical basis for assuming the existence of maximum levels of distribution services in both offline and online retailing. Thus, for assuming any one of these maxima constant and the same across consumers in empirical analyses of customer satisfaction with survey data. This theoretical basis has been absent in prior literature (e.g., Betancourt et al. 2007; Gómez, McLaughlin, and Wittink 2004; Parasuraman, Zeithaml, and Berry 1988). This issue is discussed in detail in the third section where we present our modeling framework.

This conceptual framework is based on treating the distribution services provided by retailers as a set of five broadly defined outputs that accompany any retail transaction. They have to be produced at some level by any retail store or firm whether it operates offline or online. Five broad categories of these distribution services as outputs are generally identified in the marketing literature (e.g., Kopalle et al. 2009): *accessibility of location*, *information*, *assortment* (*breadth and depth*), *assurance of product delivery* (*in time and form*) and *ambiance*. Their properties as outputs in retail cost functions have been analyzed (e.g., Betancourt 2004, Ch. 4) as well as their impact on consumers' demand for retail products through their role as fixed inputs in household production functions (e.g., Betancourt 2004, Ch. 3). They can be viewed as channel outputs (Keh 1997) following the spirit of Bucklin's (1966) view of channels as mechanisms for providing outputs wanted by customers at minimum cost. In the third section of the paper we show how this framework easily accommodates the distinction between sensory and non-sensory dependent items mentioned in the prior paragraph.

A second contribution of the paper is methodological. We draw heavily on the attributes/satisfaction/performance chain literature for our empirical analysis. The latter has identified shortcomings of the typical OLS applications to the estimation of the impact of attributes on customer satisfaction (e.g., Vargo et al. 2007) as well as in the impact of customer satisfaction on performance variables (e.g., Anderson and Mittal 2000). In both cases one of the shortcomings stressed has been the need to allow for the possibilities of asymmetries in the response of the dependent variable. That is, asymmetries in the impact of attributes on satisfaction and in the impact of satisfaction on the performance variable. We contribute to this literature by providing the first application of quantile regression to capture asymmetries in each of these links.

Empirical issues are the focus of the rest of the paper and provide the basis for our third contribution, namely the substantive results obtained. The survey and the variables measured are described in the fourth section, followed by a section on estimation summarizing the essential features of quantile regression as well as its empirical specification for both links in the attributes/satisfaction/performance chain for PSC. Subsequently, a results section is subdivided into three parts: the results for customer satisfaction; the results for future patronage or loyalty intentions; and an explicit discussion of the managerial implications of quantile regressions. Our empirical analysis raises issues inconclusively addressed in the literature. A seventh section on robustness checks to these issues confirms our main substantive results. A brief conclusion highlights an area for future research and provides perspective on our main contributions.

Succinctly put, our most important substantive result for PSC is that the distortions introduced by ignoring asymmetries in the response function matter far more in the attributes/satisfaction link than in the satisfaction/performance link. Indeed, in the former setting OLS would mislead PSC' managers to focus on an attribute or distribution service that the quantile regression reveals not to have an effect on satisfaction. With respect to the determinants of customer satisfaction, we find attributes that matter in other online settings, i.e., accessibility of location, assortment and assurance of product delivery at the desired time, to have no impact on satisfaction with PSC. On the other hand, aspects of information, assurance of product delivery in the desired form and ambiance do matter for satisfaction with PSC just as they do in other online settings. Finally, with respect to the determinants of loyalty intentions, we find that variables identified as important determinants of loyalty intentions in other online settings have a similar impact on PSC regardless of estimation methodology.

## Format Origins and Main Features

Manufacturers of fashion products and seasonal household items have always faced the problem of how to deal with stocks of items left over after the main calendar period for sales is over. Before information and communication technologies (ICT) became widespread, brick and mortar periodic markets, physical discount outlets or private sales through professionals for a small number of people identified by word of mouth were the main channels to distribute out of fashion or out of season stocks. In the 21st century PSC arose as an online retail channel with steep discounts for luxury brands open to club members