

Do Customer Discounts Affect Frontline Employees?

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Executive Summary

Customer discounts continue to represent one of the most powerful marketing tools, bringing forth desired outcomes more effectively and more rapidly than almost any other type of marketing initiative. Specifically, discounts enable firms to swiftly boost revenues and cash flows in the short term, encourage brand switching, attract new customers, stimulate new product trials, avoid operational overcapacities, and create a favorable price image. Reaching these objectives by means of deployed discounts, however, can also have significant downsides for firms. For example, discount-driven peaks in revenue and cash flow may reflect mere purchase acceleration and stockpiling behaviors of customers momentarily, thereby substantially reducing subsequent customer spending when promotional incentives are not provided. From a firm's perspective, discounts can have a negative psychological impact on customers by conditioning them to make increasingly price-sensitive decisions, wait for economic opportunities, lower their internal reference prices, and associate lower levels of quality with a discounted product or service. In terms of competitive market economics, discount-strategies can erode profit margins in an industry when emphasizing promotional incentives stimulates intense price competition among market players.

Adding to these drawbacks, the findings of the present research show that customer discounts can affect firms' service workforce in a destructive way. Psychologically, our empirical results suggest that frontline employees tend to interpret discounted selling prices as decreased valuations of their own work. In consequence, frontline employees perceive their work as less meaningful by experiencing lower levels of both the significance of their work tasks and the

extent of feeling appreciated by their employer. These feelings further diminish the intrinsic motivation of service workers, and cause them to maintain mixed feelings about the organization and to exhibit higher inclinations toward leaving it. The overall negative influence of discounts on frontline workers is potentially very harmful for firms since service levels facilitated by frontline employees often represent a critical source of competitive advantage. Unmotivated employees that experience diminished meaning of their work can be expected to underperform during service delivery. Such disgruntled service workers will also be likely to exert a toxic influence upon their colleagues as well as on the given organizational culture.

The present research findings underline the need for an effective coordination between firms' service and promotional activities. To mitigate the negative discount outcomes identified in this work, firms may elevate frontline employees' sense of feeling appreciated by providing deliberate constructive job feedback that fosters their experienced competence level, when truthful and appropriate. Moreover, informational asymmetries could be reduced by means of open communication and encouraged dialog between frontline workers and their superiors. Establishing effective internal communication that informs service employees about present and planned promotional initiatives and their underlying objectives will likely help to reduce discounts' negative consequences for the frontline workforce. It may also be possible in certain service settings to mitigate such negative effects by using contemporary technological interfaces that eliminate or restrict the visibility of pricing conditions including discounts to employees at the frontline.