Loyalty is trump: New study on price reduction

February 18 2013

A skilful negotiator can save a lot of money when shopping in his favourite store. This was found out by researchers at the Ruhr-Universität Bochum (RUB) in a large-scale study. An extra five percent discount is, on average, no problem - as long as you know how to use your customer loyalty as a trump.

The credo turned on its head

For loyal customers, the price is not so important – at least, that was the credo in marketing and sales up to now. The recently published study by the Bochum scientists Prof. Jan Wieseke, Sascha Alavi and Johannes Habel of the Faculty of Economics at the RUB has turned this perception fundamentally on its head: "Many customers consciously play out their loyalty in price negotiations, and thus gain an extra five percent discount without any problem" says Wieseke. When buying a car worth 30,000 Euros, a buyer thus saves up to 1,500 Euros without any great effort.

An unbeatable argument

For their study, the researchers in Bochum evaluated data from more than 6,000 customers and attended over 300 price negotiations in numerous sectors. Because: negotiations have long since not just applied to buying a car, but to almost every store and to almost every price category - whether in a furniture shop, DIY store or clothes shop. Since

the long-term retention of their customers is extremely important for companies, loyal customers have an almost unbeatable argument. A regular customer who demands a reasonable price reduction often encounters little resistance from sellers. However, the following statement holds true, says Wieseke: "Many shops know their regular customers and are very quick to spot a lie."

Doubtful side effects

For the companies, the excessive discounts for loyal customers do, incidentally, entail some dubious side effects. Thus, for example, the researchers in Bochum found out that, as a result of the higher discount, the customers become even more loyal to the shop - and are then able to achieve an even greater discount on their next purchase. "This shows that loyalty can, indeed, be bought", says Wieseke, "but it creates a vicious circle in which customer loyalty and discounts rise ever higher and higher. This puts many shops in a strangle hold." Anyone wanting to break out of this would have to train their sales staff specifically for negotiations with loyal but demanding customers.

Taking the old image too much to heart

From a scientific point of view, the study is highly explosive. Until now, researchers always assumed quite the opposite - that, because of their attachment to their favourite store, loyal customers were even willing to pay higher prices. Also many companies are often not sufficiently aware of the negotiating power of loyal customers: "Many retailers have taken the old image of the faithful, satisfied customer simply too much to heart. A sober look at the figures reveals the harsh reality here", says Prof. Jan Wieseke. The RUB researchers presented the results of their study publicly for the first time last Saturday, 16 February 2013, at the Conference of the American Marketing Association in Las Vegas - one

of the world's most prestigious conferences for marketing researchers. The study received an award as best conference paper in the area of sales and customer relationship management. In addition, the study received an honorable mention award as one of the best conference papers overall.

Provided by Ruhr-Universitaet-Bochum

Citation: Loyalty is trump: New study on price reduction (2013, February 18) retrieved 18 September 2024 from https://phys.org/news/2013-02-loyalty-trump.html

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.