

When negotiating, it pays to know your customer

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A new study of the time-honored tradition of haggling over new car prices shows that sales personnel who are trained to understand a customer's price sensitivity will strike a better deal for their employers.

Three [faculty members](#) from the sales and [marketing department](#) of the University of Bochum, Germany, investigated how well car [salespeople](#) were able to judge how important price was to their customers and what difference that made to the outcome of the negotiations.

In their paper, "Saving on Discounts through Accurate Sensing - Salespeople's Estimations of Customer Price Importance and Their Effects on Negotiation Success," forthcoming in the March 2016 issue of the *Journal of Retailing*, the professors - Sascha Alavi, Jan Wieseke, and Jan H. Guba - showed that salespeople who could accurately gauge their customers' focus on non-monetary benefits versus price were able to reduce the discounts they granted by an average of \$616 per transaction. If they were given incentives to boost revenues, they performed especially well. "Accurate sensing of a customer's sensitivity to price helps salespeople to grant a discount that is on average 1.96 percent less, while maintaining the customer's purchase intention," they write.

During their investigation of more than 500 car-buying transactions, the researchers also showed that correctly perceiving customers' [price sensitivity](#) is not easy: salespeople are easily thrown off by misinterpreted cues. For instance, the fact that a customer is especially

knowledgeable about the car he or she is interested in is often misunderstood by the salesperson as a sign that the customer will be especially difficult to deal with, when in reality that customer could just as easily be willing to pay more for certain features. The data revealed that other attributes that are often misinterpreted in terms of how they affect negotiations include a customer's age and his relationship with the salesperson.

For retailers, the implications of the research are clear, the authors write: "Retail managers should train salespeople to be customer-oriented and to adapt to individual customers." In addition to saving money for their employers, a sales team so trained "may be better able to address their customers' needs, offer them products that correspond to their price importance, and thus sell more and higher-priced products."

Provided by New York University

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