

Set the initial price discount right to turn new customers into loyal ones

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A study, recently accepted for publication at *Journal of Marketing*, reports nonlinear relationship between initial price discounts and customer retention.

Companies extensively use price discounts to attract new customers with whom they could build sustainable relationships in the long-term. However, existing empirical research has only found conflicting evidence on the long-term benefits of initial discounts.

Analyzing unique customer data from the Finnish insurance industry, researchers from the Aalto University School of Business and the Hanken School of Economics suggest that moderate initial discounts of 5-35 percent tend to optimize customer retention.

Similarly, too low and also too high discounts have negative effects on the long-term customer relationships. The phenomenon stems from moderate-[discount](#)-receiving customers' increased expectations of future relational benefits, as well as lowered expectations of future discounts.

The main author of the research is PhD candidate Maria Del Rio Olivares from the Department of Marketing at the Aalto University School of Business. Collaborating authors were Kristina Wittkowski (Aalto), Jaakko Aspara (Hanken), Tomas Falk (Aalto) and Pekka Mattila (Aalto). The study has been accepted for publication in the *Journal of Marketing*, which is generally considered the premier outlet of academic marketing literature and is for example included in The Financial Times

ranking of the 50 best academic journals in the field of all business research.

Provided by Aalto University

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