Jan Wieseke, Sascha Alavi, & Johannes Habel

Willing to Pay More, Eager to Pay Less: The Role of Customer Loyalty in Price Negotiations

This article is the first to empirically examine the effect of customer loyalty in retail price negotiations. Across three field studies and one negotiation experiment, the authors establish what they call the "loyalty–discount cycle": in price negotiations with salespeople, loyal customers receive deeper discounts that, in turn, increase customer loyalty, resulting in a downward spiral of a company's price enforcement. The reason for the positive effect of customer loyalty on discount is twofold: (1) loyal customers demand a reward for their loyalty and invoke their elevated perceived negotiation power, and (2) to retain loyal customers, salespeople grant discounts more willingly. Furthermore, the mechanisms are moderated by the basis of a customer's loyalty (price vs. quality) and the length of the relationship between the salesperson and the customer. To escape the loyalty–discount cycle, salespeople can use functional and relational customer-oriented behaviors. The study helps managers and salespeople optimize their price enforcement and servicing of loyal customers.

Keywords: customer loyalty, price negotiations, personal selling, retailing, pricing

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Today's business world commonly accepts the high value of loyal, repeat-business customers. Managerial literature has widely emphasized the importance of a loyal customer base to any business (e.g., Reichheld 2001). The rationale for this recommendation is intuitive: "the longer a company keeps a customer, the more money it stands to make" (Reichheld and Sasser 1990, p. 106).

Marketing research has contributed to the rise of customer loyalty as a topic of high frequency, as various studies have found strong relationships between customer loyalty and firm financial outcomes (e.g., Morgan and Rego 2006). The advantageous effects of customer loyalty are typically associated with customer retention, repeat business, and positive word of mouth (e.g., Anderson and Mittal 2000; Kamakura et al. 2002; Mittal and Kamakura 2001; Morgan and Rego 2006), all of which potentially lead to increased revenue and profitability. Moreover, one research stream has focused on the price-related consequences of customer loyalty, with most studies showing that customer loyalty leads to lower price sensitivity (e.g., Guadagni and Little 2008; Srinivasan, Anderson, and Ponnavolu 2002), which results in higher price levels for products or brands (e.g., Chaudhuri and Holbrook 2001; Wernerfelt 1991).

However, an important research void involves the relationship of customer loyalty and price negotiations. In negotiating with a loyal customer about price, will the salesperson be able to enforce higher or lower prices than with a nonloyal customer? To our best knowledge, no study has yet examined this question. A possible reason for this research void might be the seeming simplicity of the question. If loyal customers are less price sensitive, a reasonable assumption is that they are less demanding in price negotiations, leading to a better price enforcement by the seller. However, some researchers have conflicting views on this topic. For example, "loyal customers may come to expect a price discount or better service" as a reward for their loyalty (Dowling and Uncles 1997, p. 78). In a similar vein, Kalwani and Narayandas (1995) propose that in a business-to-business context, customers can bargain down prices over time. Furthermore, researchers' conflicting views seem to be mirrored in practice. We recently surveyed 130 German and 70 U.S. sales managers across the automobile, jewelry, furniture, electronics, and fashion retail industries on this topic. In total, 40% of the managers were of the opinion that loyal customers *request* deeper discounts than nonloyal customers, and 46.5% said that loyal customers *receive* deeper discounts than nonloyal customers. Thus, the question of how customer loyalty connects to a negotiated discount seems to be polarizing.

In light of the uncertainty and scarce empirical evidence regarding the outcomes of price negotiations between sales-

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people and loyal customers, our study empirically examines the role of customer loyalty in price negotiations. Drawing on social exchange theory (SET; Blau 1964; Homans 1974), we predict that loyal customers achieve deeper discounts for two reasons. First, we expect them to engage in price negotiations to a greater extent because they demand a reward for their loyalty and employ their higher perceived negotiation power—especially if their loyalty is based on a store's superior prices. Second, we expect salespeople to grant discounts more willingly in an attempt to avoid threatening the relationship with loyal customers. We further argue that the discounts loyal customers achieve in turn increase their loyalty. As a result, both customer loyalty and discounts should increase over time—a phenomenon we label the "loyalty–discount cycle."

To test our hypotheses, we conducted four studies. As the study context, we chose retail industries in which customers tend to bargain over prices, such as jewelry (with 2013 sales of $33 billion in the United States), furniture (sales of $53 billion), consumer electronics (sales of $76 billion), and cars (sales of $693 billion) (e.g., *Consumer Reports* 2013; for market volumes, see IbisWorld 2014).

For our first study, to examine the causal effect between customer loyalty and discounts, we chose a jewelry retail chain and used longitudinal transactional data of more than 7,200 customers who purchased between 2008 and 2012. In our second study, we examined the mechanisms of the loyalty–discount cycle with a survey sample of 151 customers of this same retail chain matched with objective company data. In our third study, we extended and validated our findings using nested customer and salesperson survey data of 308 selling interactions across several retail industries. In our fourth study, to gain a deeper understanding of our previous findings, we conducted a negotiation experiment with 138 participants. Our results strongly support the existence of a loyalty–discount cycle and our proposed mechanisms.

Our findings are important for both marketing researchers and practitioners. For researchers, the results fill a void by showing for the first time the deleterious effect of customer loyalty in price negotiations. For practitioners, our findings raise awareness that using discounts to reward customers for their loyalty may lead to a downward spiral of a company's price enforcement. Salespeople should consider the mechanisms underlying the loyalty–discount cycle when deciding on their negotiation strategy.

Literature Overview

Figure 1 depicts our literature overview and presents the two major research areas of our study. The first research area focuses on price-related consequences of customer loyalty, such as the effect of customer loyalty on price sensitivity. The second research area focuses on the consequences of loyalty-related factors in negotiations, such as the effect of relationships between negotiators. Notably, neither research area has investigated the role of customer loyalty in price negotiations, represented by the overlapping of the two research areas. In the following subsections, we provide a brief overview of the two research fields.

Price-Related Consequences of Loyalty

Consequences for customers. A large body of research has investigated the link between customer loyalty and price sensitivity, with most studies finding that loyal customers react less sensitively to prices (e.g., Guadagni and Little 2008; Srinivasan, Anderson, and Ponnavolu 2002). However, prior research has also produced some conflicting evidence (McCann 1974; Mela, Gupta, and Lehmann 1997; Reinartz and Kumar 2000) and has identified contingencies (e.g., Bucklin, Gupta, and Siddarth 1998; Krishnamurthi and Papatla 2003). Furthermore, studies have shown that loyal customers are less deal prone—that is, less responsive to limited-time price promotions by vendors (Bawa and Shoemaker 1987; Webster 1965).

Consequences for companies. Studies in this area of the literature have examined how companies should set overall prices, price discriminate, and promote prices depending on the loyalty of their customer base (e.g., Caminal and Claici 2007; Dubé et al. 2008; Tellis and Zufryden 1995). Typically, these studies use equilibrium models to derive recommendations. Researchers seem to largely agree that customer loyalty enables companies to charge higher prices.

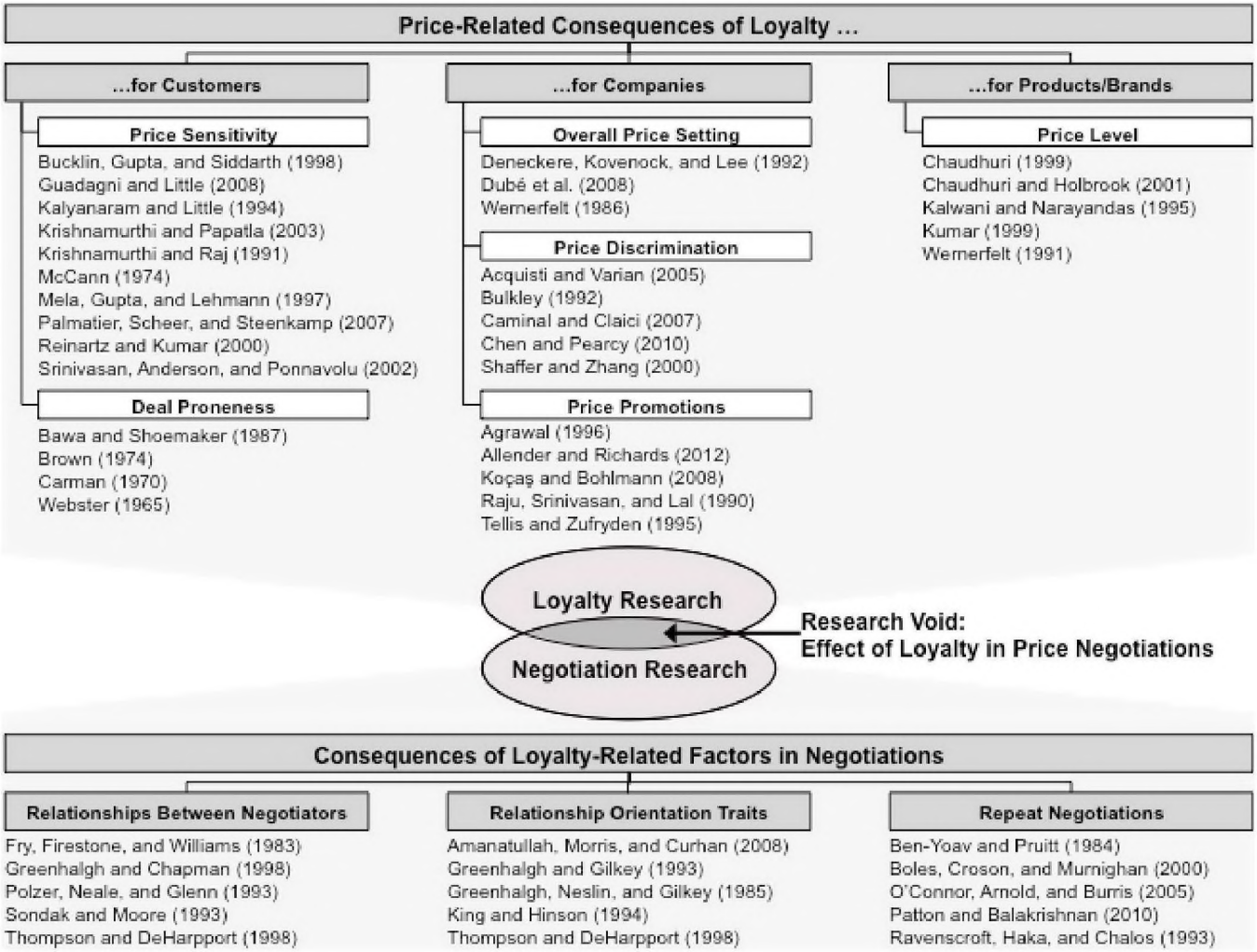
Consequences for products/brands. Studies in this research stream have examined how customer loyalty affects the price level of products or brands. The majority of studies have found that customer loyalty leads to increasing prices (e.g., Chaudhuri and Holbrook 2001). Kalwani and Narayandas (1995) provide a notable exception: by analyzing Compustat data in business-to-business industries, they find that in long-term manufacturer–supplier relationships, both production costs and prices *decreased* over time. They thus hypothesize that the "gains to suppliers from lower production costs appear to be bargained away by the customer through lower prices" (Kalwani and Narayandas 1995, p. 10). However, they do not empirically validate their hypothesis that manufacturers are more successful in bargaining with long-term suppliers. Moreover, further research has challenged the generalizability of their findings: Kumar (1999) finds that relationship-oriented service firms are *better* able to maintain their prices than transaction-oriented service firms.

Consequences of Loyalty-Related Factors in Negotiations

Relationships and relationship orientation traits. The consensus among researchers is that negotiators with a positive relationship have lower negotiation goals, share more information, and negotiate more cooperatively (e.g., Fry, Firestone, and Williams 1983; Greenhalgh and Chapman 1998; see also Schroeder et al. 2014). A closely related research stream examines how personality traits that strongly support relationship maintenance affect negotiations. Core findings in this stream are that negotiators with such personalities make greater concessions and avoid relationship-impairing tactics (e.g., Amanatullah, Morris, and Curhan 2008; Greenhalgh and Gilkey 1993).

Repeat negotiations. Researchers have found that negotiators tend to reach an impasse if they have reached an

FIGURE 1
Literature Overview



impasse in a prior negotiation (O'Connor, Arnold, and Burris 2005). However, anticipation of future negotiations with the same partner makes a negotiation more cooperative and friendly, facilitates problem-solving, and leads to a greater parity outcome and higher levels of satisfaction (Ben-Yoav and Pruitt 1984; Patton and Balakrishnan 2010; Ravenscroft, Haka, and Chalos 1993).

In conclusion, a large body of research exists on the relationship between customer loyalty and price-related constructs and on the consequences of loyalty-related factors in negotiations. However, the role of customer loyalty in price negotiations between salespeople and customers has not previously been empirically examined. Our study begins at this point and elucidates the role of customer loyalty in price negotiations for a retail context.

Conceptual Framework

Overall Framework

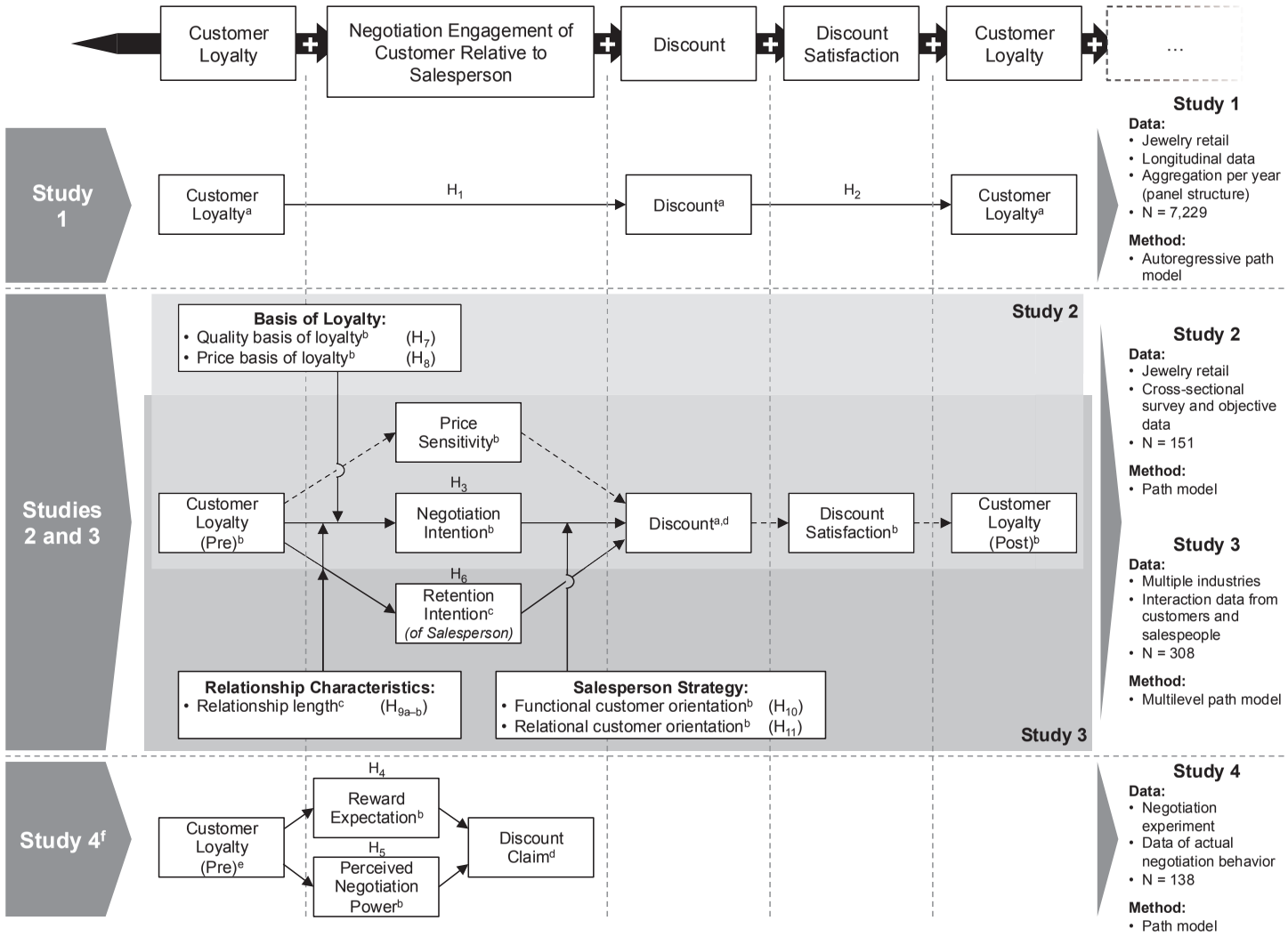
Our basic notion of the loyalty–discount cycle is that loyalty leads to increased negotiation engagement of customers relative to salespeople. As a result, customers achieve a deeper discount, which satisfies them and strengthens their loyalty. At this point, the cycle starts over, leading to further discounts and increasing loyalty with each transaction. These propositions are based on SET, which we discuss in the "Hypotheses" section.

Figure 2 depicts the loyalty–discount cycle's "rollout" into our conceptual framework. Our core constructs over all four studies are customer loyalty and discount. We define customer loyalty as the degree to which a customer rebuys at or repatronizes a store, thus focusing on behavioral loyalty as opposed to attitudinal loyalty (Dick and Basu 1994). We define the second core construct, discount, as the concession a customer receives on the list price of a product.

Framework for Study 1

In Study 1, we examine the direct effect of customer loyalty and discount on each other. The framework thus links customer loyalty to discount and discount to customer loyalty over five years. To test the framework, we used longitudinal secondary data from a jewelry chain.

FIGURE 2
Overview of the Studies and Conceptual Framework



[a]Transaction data from company records.
[b]Customer data.
[c]Salesperson data.
[d]Observer data.
[e]Manipulated.
[f]In addition, we replicated the interaction effect of customer loyalty and the basis of loyalty on discount claim.
Notes: ----➤ = path without formulation of hypothesis.

Framework for Studies 2 and 3

In Studies 2 and 3, we use cross-sectional dyadic customer–salesperson interaction data to link all elements of the loyalty–discount cycle. The framework begins with customer loyalty (pre) (i.e., customer loyalty before the selling encounter). Next, to incorporate our SET-derived proposition that loyal customers are eager to pay less, we included negotiation intention as a mediator between customer loyalty and discount. We define negotiation intention and all further constructs used in Studies 2 and 3 in the Appendix. Moreover, we controlled for a path leading from customer loyalty (pre) over price sensitivity to negotiation intention. We included price sensitivity because prior research has found loyal customers to be less price sensitive, which may affect a customer's negotiation behavior and thus the discount he or she achieves.

In Study 3, we add a path of customer loyalty on discount through a salesperson's retention intention. By incorporating retention intention, we implement our SET-derived prediction that salespeople grant discounts to loyal customers more willingly to avoid threatening the relationship. To complete the loyalty–discount cycle, we propose that discount increases customer loyalty (post) (i.e., loyalty after the selling encounter) through discount satisfaction.

We also include several potential moderators. First, because we argue that the effect of customer loyalty (pre) on negotiation intention depends on the reason for a customer's loyalty, we include quality basis of loyalty and price basis of loyalty in Study 2. In Study 3, we add relationship length, which is an essential contextual factor in negotiations (Greenhalgh and Chapman 1998). Finally, drawing on SET, we propose that functional customer orientation and relational customer orientation (Homburg, Müller, and Klarmann 2011) attenuate the effect of negotiation intention on discount.

Framework for Study 4

In Study 4, we aim to elucidate the link between customer loyalty and customers' discount claims through a negotiation experiment. We propose two mediating paths based on SET. First, the effect of customer loyalty on discount claim should be mediated by reward expectation, which we define as a customer's perception that he or she deserves gratification from a company. Second, the effect should be mediated by perceived negotiation power, which we define as a customer's perceived ability to influence price negotiation (Van Kleef et al. 2006).

Hypotheses

SET as the Theoretical Foundation

We use SET as the overarching theoretical framework to derive our hypotheses (Blau 1964; Homans 1974). Social exchanges are "two-sided, mutually contingent, and mutually rewarding processes involving 'transactions'" (Emerson 1976, p. 336). Social exchange theory elucidates determinants and consequences of people's behaviors in social exchange relationships and reveals how the relationships evolve over time. A central assumption is that all human relationships form on the basis of a subjective cost–benefit analysis and the comparison of alternatives (Homans 1974). From this vantage point, all relationships are negotiated exchanges that have an instrumental function: exchange partners engage in negotiations because of expected rewards and intend to uphold the relationship if the exchange generates more rewards than are available elsewhere (Emerson 1981). Conversely, if exchange partners view the relationship rewards as insufficient, they terminate the exchange relationship. Thus, the exchange partners' rewards are interdependent because outcomes are not based solely on one party's actions but on combined effort.

Two social phenomena result from this interdependence of exchange partners that form the backbone of SET (Cook and Emerson 1978): (1) relational social exchange norms that guide behavior in the interaction and (2) power in terms of dependence on the rewards from the other party. Relational norms pertain to shared expectations regarding the distribution of rewards (Gundlach, Achrol, and Mentzer 1995). In this respect, one of the most pervasive norms is the norm of reciprocity, which proposes that exchange partners feel entitled to receive a reward in return for a reward granted (Cropanzano and Mitchell 2005; Gouldner 1960). Power emerges in a social exchange relationship because the partners depend on each other to a certain extent (Kim, Pinkley, and Fragale 2005). In this respect, the partner who depends less on the relationship possesses relatively more power (Emerson 1972).

Effects of Customer Loyalty on Negotiated Discount

In this subsection, we derive the hypotheses shown in Figure 2. Our first two hypotheses involve the longitudinal effect of customer loyalty on discounts and vice versa. We argue that customer loyalty has a positive effect on subsequent discounts and that discounts have a positive effect on subsequent customer loyalty. In line with SET, we propose that loyal customers engage in price negotiations to a greater extent because they demand rewards in return for their loyalty and leverage their perceived negotiation power. At the same time, salespeople are more willing to grant discounts to loyal customers. Both effects eventually lead to deeper discounts. We elaborate on the specific linkages between customer loyalty and discount in H_3 and H_4.

H_1: The stronger a customer's loyalty, the greater the discounts he or she realizes.

Social exchange theory proposes that exchange partners weigh rewards against costs of the exchange relationship to decide whether to maintain or terminate the relationship (Homans 1974). If the rewards repeatedly exceed the costs of the interaction, exchange partners develop a mutual attachment (Lawler and Yoon 1993) because "successful exchanges can cause one individual to become committed to another" (Cropanzano and Mitchell 2005, p. 882). Applied to our context, greater discounts imply a more favorable reward-to-cost ratio for the customer. Thus, with increasing discounts, customers should be more likely to uphold the relationship with the company.

H_2: The greater the discount a customer realizes, the greater his or her subsequent loyalty.

Customer-Related Mechanisms in the Loyalty–Discount Cycle

In H_3, we argue that customer loyalty increases a customer's negotiation intention, which in turn enhances the discount the customer receives. Drawing on SET, we propose that loyal customers should be highly motivated to negotiate for a discount for two reasons: (1) loyal customers should develop reward expectations toward the company, and (2) recognizing their high value to the company, loyal customers should form perceptions of elevated negotiation power relative to the salesperson. We elaborate on both reasons in the following subsections.

Reward expectations. Social exchange theory proposes that the norm of reciprocity is an important guideline in the customer–company exchange process (Gouldner 1960). For the customer, reciprocity in the exchange implies the expectation of a reward from the company if he or she perceives the company to profit from the mutual relationship. Loyal customers should regard their retention and increased spending as a reward to the company that stems from the customer–company relationship (Huppertz and Arenson 1978). In line with the norm of reciprocity, the loyal customer should then form reward expectations of the company to render the customer–company relationship more balanced. Because discounts are an important company-controlled reward, we propose that the customer's loyalty-induced reward expectations translate to a greater intention to negotiate for a discount: "loyal customers may come to expect a price discount or better service. In other words, what are the rewards to the customer for his or her loyalty?" (Dowling and Uncles 1997, p. 78).

Perceived elevated negotiation power. People assess their relative power in an exchange relationship on the basis of their evaluation of rewards and costs for both exchange partners (Kim, Pinkley, and Fragale 2005). The power of one exchange partner over the other increases the more the other partner values the rewards from the relationship and therefore depends on the continuance of the exchange (Emerson 1972). Applied to our context, loyal customers should view their repeat purchase and patronage as a reward that is important for the company's business success. As a result, loyal customers should view themselves as more powerful in a price negotiation than nonloyal customers. Loyal customers' perception of elevated negotiation power should in turn increase negotiation intentions as they judge success in the price negotiation as more likely (Hüffmeier et al. 2014).

Ambiguous effects of loyalty on price sensitivity and negotiation intention. Our proposition that customer loyalty increases discounts through its positive effect on negotiation intention might seem counter to conventional wisdom, because a large body of prior research has found that loyal customers are less price sensitive (e.g., Palmatier, Scheer, and Steenkamp 2007). Why would a customer who is less sensitive to price increases want to achieve a greater discount? Our rationale for the countervailing effects of loyalty on price sensitivity and negotiation intention builds on the psychological processes underlying both effects. More specifically, customer loyalty decreases customers' price sensitivity because loyal customers evaluate the offer to which they are loyal as superior to competitive offers (Kalyanaram and Little 1994). However, we propose that for the positive effect of customer loyalty on negotiation intention, psychological processes derived from SET are responsible. As we have noted, loyal customers recognize the benefits to the company of the mutual relationship and, in response, form reward expectations in line with the norm of reciprocity. In addition, loyal customers perceive themselves to be in a stronger negotiation position relative to the respective company. In other words, we propose that a loyal customer's desire for a discount is not only a matter of price but also a matter of principle and power. Put differently, loyal customers are willing to pay more, but they are eager to pay less. As a result, customers with a strong intention to negotiate achieve greater discounts because they allocate more effort to the price negotiation (Hüffmeier et al. 2014).

H_3: Negotiation intention mediates the effect of customer loyalty on discount.

H_4: Reward expectation mediates the effect of customer loyalty on negotiation intention.

H_5: Perceived negotiation power mediates the effect of customer loyalty on negotiation intention.

Salesperson-Related Mechanisms in the Loyalty–Discount Cycle

Next, we develop our hypotheses involving the salesperson-related path between customer loyalty and the discount eventually realized. Social exchange theory suggests that exchange partners weigh the rewards of a relationship against costs to decide whether to maintain or terminate the relationship (Homans 1974). In evaluating their relationship to loyal customers, salespeople should recognize the high value that loyal customers provide to the company in terms of repeat business, increased spending, and word of mouth. Social exchange theory furthermore predicts that salespeople should be motivated to uphold the mutual relationship because of the significant benefits for the firm and the salesperson that result from the relationship to loyal customers. Consequently, we propose that, on average, salespeople should exhibit a high retention intention when interacting with loyal customers.

Regarding the retention intention–discount linkage, we expect that a salesperson's retention intention increases the customer's discount for two reasons. First, SET suggests that salespeople motivated to maintain the exchange relationship should grant discounts as rewards to the customer to render the relationship more attractive. Second, salespeople with a high retention intention should bargain in a more conciliatory manner to preserve the relationship with the customer, leading to greater discounts for the customer.

H_6: The salesperson's intention to retain a customer mediates the effect of customer loyalty on discount.

Moderation Mechanisms in the Loyalty–Discount Cycle

Customers develop loyalty to companies for varied reasons. Prior work has suggested that two central motives for developing loyalty are the company's price offering and the company's quality offering. In the case of price-based loyalty, customers are committed to a company because they perceive the company to offer good prices, whereas quality-based loyalty customers are committed because they perceive the company to offer good product or service quality (Gustafsson, Johnson, and Roos 2005; Oliver 1999).

We suggest that the basis of loyalty affects the link between customer loyalty and negotiation intention. If customers' loyalty is quality based, they should expect the company to reciprocate by providing high-quality products or services. Under this condition, customers' reward expectations should focus on quality and are less likely to involve prices. Consequently, quality-based loyalty should attenuate the positive effect of loyalty on negotiation intention. However, if customers' loyalty is price based, they should be inclined to expect price-related rewards in return for their loyalty because they have grown accustomed to good deals in the course of the relationship.

H_7: The more customer loyalty is based on quality perception, the less pronounced the effect of a customer's loyalty on his or her negotiation intention.

H_8: The more customer loyalty is based on price perception, the more pronounced the effect of a customer's loyalty on his or her negotiation intention.

In this article, we argue that the longer the customer–salesperson relationship, the stronger the positive effect of loyalty on a customer's negotiation intention. Social exchange theory proposes that the norm of reciprocity gains importance with increasing relationship length because it provides an efficient way of enforcing equity in the relationship without costly control mechanisms (Gundlach, Achrol, and Mentzer 1995). Consequently, in long-term relationships, loyal customers' focus on reciprocity should increase their propensity to demand loyalty rewards, strengthening the loyalty–negotiation intention link.

Regarding the consequences of relationship length for salespeople, we propose that the longer the customer–salesperson relationship, the stronger the effect of customer loyalty on a salesperson's retention intention. The longer the salesperson and customer have engaged in business exchanges, the more often the salesperson has directly experienced relationship rewards in the form of completed transactions or bonuses, rendering the high value of the relationship very explicit to the salesperson. That is, with increasing relationship length, salespeople should acquire a more precise understanding of the benefits that result from the relationship to the loyal customer (Gundlach, Achrol, and Mentzer 1995). Thus, we posit the following:

H_9: The longer the relationship between a customer and a salesperson, the more pronounced the effect of a customer's loyalty on (a) his or her negotiation intention and (b) the salesperson's retention intention.

Regarding strategies to cope with customer discount demands, we propose that salespeople might leverage customer-oriented behaviors to attenuate the positive influence of negotiation intention on the discount received. In line with our conceptual framework, we differentiate functional customer orientation (i.e., identifying and addressing customer product needs) and relational customer orientation (i.e., fulfilling customers' emotional needs and establishing a personal relationship) (Homburg, Müller, and Klarmann 2011).

Our rationale for this hypothesis builds on the proposition of SET that relationship rewards are not necessarily monetary but can also comprise immaterial, nonmonetary benefits such as prestige or status (Foa and Foa 1975). We argue that these nonmonetary benefits may be provided through functional and relational customer orientation (Homburg, Müller, and Klarmann 2011). Specifically, if a salesperson expends effort to identify and address customer needs (functional customer orientation) or to build a relationship with customers (relational customer orientation), loyal customers should feel that their loyalty is reciprocated through special treatment. Following the norm of reciprocity (Gouldner 1960), customers should thus have less need for a discount as a reward and refrain from putting their negotiation intention into action. We therefore hypothesize the following:

H_{10}: The higher a salesperson's functional customer-oriented behavior, the less pronounced the effect of the customer's negotiation intention on discount.

H_{11}: The higher a salesperson's relational customer-oriented behavior, the less pronounced the effect of the customer's negotiation intention on discount.

Study 1: Establishing the Loyalty–Discount Cycle

Data Collection and Sample

The goal of our first study is to analyze the longitudinal effect of customer loyalty on the subsequent discount and the effect of this discount on ensuing customer loyalty. We used the company records of a European jewelry retail chain, which include detailed information on each of the customers' transactions. We aggregated all transactions for each customer in a given year, resulting in a panel of 7,229 customers who had purchased between 2008 and 2012.

Measures

Customer loyalty. We operationalized customer loyalty as the total number of store visits with a transaction for each customer in a given year. Operationalizing behavioral loyalty as repeated purchases might seem restrictive because behavioral loyalty is often measured as share of wallet (e.g., De Wulf, Odekerken-Schröder, and Iacobucci 2001). However, we believe that in our context, the measure is an adequate proxy of behavioral loyalty for two reasons. First, repeated purchases are an essential element of behavioral loyalty and have frequently been used as an indicator of behavioral loyalty (e.g., Evanschitzky and Wunderlich

2006; Kamakura et al. 2002). Second, we argue that repeated purchases give pragmatic access to customer loyalty, which is of highest practical relevance to interactions between salespeople and customers. More specifically, in sales interactions, repeated purchases are often the most salient indicator of behavioral loyalty; in contrast, a salesperson usually cannot access a customer's share of wallet. Therefore, a reasonable assumption is that exchange processes between customers and salespeople are driven by this directly observable indicator of behavioral loyalty rather than by a "hidden" behavioral characteristic such as share of wallet.

Discount. We operationalized the variable discount as the total concession that a customer received in a given year. It is measured in percentage multiplied by 100.

Controls. We used the revenue a customer generates as a control variable, operationalized as the sum of paid prices in thousands of euros for all products a customer bought in a given year. Furthermore, because the jewelry retail chain uses three store subbrands with different positioning, we included two dummy variables to control for these subbrands (Aiken and West 1991). Table 1 reports descriptive statistics and correlations.

Model Specification and Results

Model specification. In line with our concept of a loyalty–discount cycle, we specified a causal chain linking customer loyalty to discount and discount to customer loyalty. We chose a lag of one year between each of the measures. Because we had access to five years of firm data, this specification resulted in a model linking customer loyalty in 2008 to discount in 2009, discount in 2009 to customer loyalty in 2010, customer loyalty in 2010 to discount in 2011, and discount in 2011 to customer loyalty in 2012. We also included autoregressive paths between the variables to account for carryover effects. To explain the discount variables, we controlled for customer revenue in the respective and the preceding year. Our rationale for this step was that customers may be given discounts as rewards for high-volume purchases that do not necessarily reflect customer loyalty. We estimated the model with Mplus Version 6.0 (Muthén and Muthén 2010) using the full information maximum likelihood estimator. The global fit of the model is acceptable (comparative fit index [CFI] = .997, Tucker–Lewis index [TLI] = .980, root mean square error of approximation [RMSEA] = .016, standardized root mean square residual [SRMR] = .011).

Main analyses. Table 2 presents our results. Next, we interpret these results in light of H_1 and H_2. H_1 suggests that loyal customers obtain greater discounts. Two paths in our model capture the effect of customer loyalty on discount. First, the customer loyalty (2008) → discount (2009) path is positive and significant ($\beta = .09$, $p < .01$). Second, the same is true for the customer loyalty (2010) → discount (2011) path ($\beta = .04$, $p < .01$). Thus, we find support for H_1.

In H_2, we propose that discount increases customer loyalty. Again, two paths are relevant in this respect. First, the discount (2009) → customer loyalty (2010) path is significantly positive ($\beta = .07$, $p < .01$). Second, the discount (2011) → customer loyalty (2012) path is significantly positive ($\beta = .05$, $p < .01$). Thus, our results support H_2.

Our findings can be summarized as follows: a customer's loyalty in a given year increases the discount this customer realizes in the next year, which again increases the customer's loyalty in the subsequent year. Thus, our results support our idea of a loyalty–discount cycle, which proposes increasing loyalty and discounts over time.

Supplemental analyses. We performed four robustness checks to substantiate the validity of our findings:

1. We estimated a model in which we constrained the two effects of customer loyalty on discount and the two effects of discount on customer loyalty to be equal.

TABLE 1
Descriptive Statistics and Correlations for Study 1

Variable	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10	V11
V1: Customer loyalty (2008)											
V2: Customer loyalty (2010)	.03**										
V3: Customer loyalty (2012)	–.00	.01									
V4: Discount (2009)	.17***	.17***	.10***								
V5: Discount (2011)	.18***	.16***	.13***	.89***							
V6: Revenue (2008)	.32***	.00	–.02	.10***	.08***						
V7: Revenue (2009)	.02*	.06***	–.03***	.16***	.10***	.06***					
V8: Revenue (2010)	–.03**	.52***	–.03***	.07***	.07***	.03**	.11***				
V9: Revenue (2011)	–.01	.07***	–.00	.08***	.17***	.06***	.06***	.13***			
V10: Subbrand A	.04***	.04***	–.01	.08***	.06**	.08***	.11***	.10***	.09***		
V11: Subbrand B	–.06***	–.06***	–.06***	–.06**	–.04*	–.00	.01	.01	.01	–.49***	
M	.30[a]	.30[a]	.29[a]	6.81	6.31	.54[b]	.49[b]	.56[b]	.53[b]	—[c]	—[c]
SD	.63	.61	.75	9.89	9.68	3.47	1.79	2.10	2.02	—[c]	—[c]

*$p < .10$.
**$p < .05$.
*** $p < .01$.
[a]The means of the customer loyalty scores are less than 1 because the sample includes new as well as older customers who did not purchase in the respective year. This inclusion enables us to compare the effect of high versus low customer loyalty on discounts.
[b]The revenue variables are scaled in thousands of euros.
[c]Dummy variable.
Notes: Two-tailed tests of significance.

TABLE 2
Estimated Path Coefficients for Study 1

Path	Hypotheses	Estimated Coefficients
Hypothesized Effects		
Customer loyalty (2008) → discount (2009)	H_1: +	.09**
Discount (2009) → customer loyalty (2010)	H_2: +	.07**
Customer loyalty (2010) → discount (2011)	H_1: +	.04**
Discount (2011) → customer loyalty (2012)	H_2: +	.05**
Autoregressive Paths		
Customer loyalty (2008) → customer loyalty (2012)		n.s.
Customer loyalty (2010) → customer loyalty (2012)		n.s.
Customer loyalty (2008) → customer loyalty (2010)		.02*
Discount (2009) → discount (2011)		.79**
Revenue Controls		
Revenue (2011) → discount (2011)		.08**
Revenue (2010) → discount (2011)		–.05*
Revenue (2009) → discount (2009)		.08**
Revenue (2008) → discount (2009)		n.s.
Subbrand Controls		
Subbrand A → customer loyalty (2010)		n.s.
Subbrand A → customer loyalty (2012)		–.05**
Subbrand A → discount (2009)		.06*
Subbrand A → discount (2011)		n.s.
Subbrand B → customer loyalty (2010)		–.05**
Subbrand B → customer loyalty (2012)		–.09**
Subbrand B → discount (2009)		n.s.
Subbrand B → discount (2011)		n.s.
Model Fit		
CFI		.997
TLI		.980
RMSEA		.016
SRMR		.011

*$p < .05$.
**$p < .01$.
Notes: n.s. = not significant. One-tailed tests of significance. We report standardized coefficients.

2. We estimated a model with customer loyalty and discount lagged by one additional year.
3. We estimated models with data broken out by 6-month instead of 12-month intervals.
4. We analyzed the total discount sizes for loyal versus nonloyal customers.

All results substantiated the robustness of our findings. For details on these analyses, refer to the Web Appendix.

Study 2: Customer-Related Mechanisms in the Loyalty–Discount Cycle

Data Collection and Sample

The goal of our second study is to explain the customer-related factors that mediate the effects of customer loyalty on subsequent discounts and of discounts on subsequent customer loyalty. We therefore mailed a survey to customers of the jewelry retail chain and asked them to evaluate their last purchase event. As a sample, we chose all customers who had purchased in 2011 and at least once before that. In addition, we drew a random sample of customers who had purchased in 2011 for the first time. This procedure resulted in a sample of 1,026 customers who received our survey in mid-2012. We obtained 158 responses, for a response rate of 15.4%. We attribute this low response rate to the sensitive nature of the surveyed data (e.g., questions regarding a respondent's price sensitivity). To assess a potential nonresponse bias, we compared the means of all of our variables for early and late respondents. Furthermore, we compared the price of the purchased products, the discount obtained, and customers' number of purchases as well as total expenditure in the focal year for respondents and nonrespondents. Because we found no significant differences ($p > .10$), we determined that nonresponse bias was not a concern for our study. The respondents had an average age of 52 years, and 57% were male.

Measures

Main variables. The Appendix provides a comprehensive overview of the measures used in this study. We collected all the variables through established scales in the customer survey, with the exception of discount. Discount is the objective discount percentage the customer received at his or her last purchase multiplied by 100 (e.g., a value of 5 reflects a discount of 5%). We collected this variable from the company records for all customers who had participated in the survey.

Control variables. We controlled for a customer's general bargaining propensity to account for inter-individual

predispositions to ask for discounts when interacting with salespeople (Schneider, Rodgers, and Bristow 1999). Table 3 reports descriptive statistics, correlations, and reliability diagnostics for all variables.

Model Specification and Estimation

We specified the path model depicted in Figure 2. The model comprises the direct effects from customer loyalty (pre) on price sensitivity and negotiation intention, as well as the effects from these two constructs on discount, from discount on discount satisfaction, and from discount satisfaction on customer loyalty (post). Furthermore, we included the moderations of quality basis of loyalty and price basis of loyalty. Therefore, we mean-centered both moderators and customer loyalty (pre) (Aiken and West 1991) and specified two interaction effects (i.e., customer loyalty (pre) × quality basis of loyalty and customer loyalty (pre) × price basis of loyalty). We then included these interaction effects as well as the main effects of the moderators in the regression of customer loyalty (pre) on negotiation intention.

We estimated the model using Mplus Version 6.0 and the full information maximum likelihood estimator. Owing to missing data, we included 151 of the 158 observations. The model yielded acceptable fit indices (CFI = .988, TLI = .970, RMSEA = .037, SRMR = .039).

Results

Table 4 presents our results. In the following subsections, we describe our findings and interpret them in light of our hypotheses. As Figure 2 shows, the model tests H_3, H_7, and H_8.

Results on core linkages. In H_3, we propose that negotiation intention mediates the effect of customer loyalty (pre) on discount. The effect of customer loyalty (pre) on negotiation intention is positive and significant ($\beta = .19$, $p < .01$). Furthermore, the effect of negotiation intention on discount is significantly positive ($\beta = .34$, $p < .01$). The product of the coefficients is also positive and significant ($\beta = .06$, $p < .05$), in support of H_3.

Results on moderators. With respect to the interaction effects, H_7 suggests that quality basis of loyalty negatively moderates the effect of customer loyalty (pre) on negotiation intention, and H_8 suggests that price basis of loyalty positively moderates that effect. In line with these propositions, the interaction effect customer loyalty (pre) × quality basis of loyalty is significantly negative ($\beta = –.15$, $p < .05$), and the interaction effect customer loyalty (pre) × price basis of loyalty is significantly positive ($\beta = .15$, $p < .05$). Thus, the positive effect of customer loyalty (pre) on negotiation intention is less pronounced if customer loyalty is based on quality and more pronounced if customer loyalty is based on price. These findings support H_7 and H_8.

Additional results. Beyond these hypothesis tests, Table 4 shows that customer loyalty (pre) decreases price sensitivity ($\beta = –.34$, $p < .01$). However, price sensitivity affects neither the customer's negotiation intention nor the discount the customer obtains ($p > .10$). Thus, the decrease in price sensitivity does not seem to prevent loyal customers from negotiating lower prices. This finding is in line with our reasoning in H_3. Furthermore, we find that in line with our conceptual framework depicted in Figure 2, the discount a customer receives increases discount satisfaction ($\beta = .33$, $p < .01$), which in turn increases customer loyalty (post) ($\beta = .17$, $p < .01$). This finding supports our proposition of a loyalty–discount cycle; that is, loyal customers receive greater discounts and thereby become even more loyal.

Common method bias diagnostics. We collected several of our core variables, particularly customer loyalty (pre) and negotiation intention, through the same customer survey. Thus, our results may be influenced by a common method bias. To reduce the threat of such a bias, we analyzed the effect of common method variance using an unmeasured latent method factor (Podsakoff et al. 2003). In particular, we loaded all indicators of multi-item constructs on both the respective latent construct and a latent method factor. We specified this latent method factor to be uncorrelated with all other constructs and to reflect the variance common to all indicators. Including the method factor did not significantly change the model. In particular, in our confirmatory factor analysis, the factor loadings of the common method factor were not significant ($p > .10$), whereas the factor loadings of our multi-item constructs decreased by a maximum of only .036. Furthermore, the standardized path coefficients decreased by a maximum of .032, and significance levels remained stable. Meanwhile, the model fit did not change significantly ($\Delta\chi^2 = 2.361$, Δd.f. = 2, $p > .10$). Thus, there is tentative evidence that common method variance is not a serious concern in our study.

Study 3: Salesperson-Related Mechanisms in the Loyalty–Discount Cycle

The goal of our third study is to extend and validate the findings of Study 2 in three ways. First, in focusing solely on customer-related mechanisms mediating the loyalty–discount cycle, Study 2 neglected the role of salespeople who might give discounts to loyal customers more willingly so as not to threaten the relationship. Study 3 takes such salesperson-related mechanisms into account. Second, whereas Study 2 focused on the examination of successful transactions, Study 3 broadens this focus by choosing a sample comprising both buyers and nonbuyers. Third, Study 2 focused on a single industry. To enhance external validity, we conducted Study 3 in a multi-industry context.

Data Collection and Sample

For the data collection, we acquired a sample of 129 retail salespeople in Western Germany (employed in a total of 26 car dealerships, 9 department stores, 5 jewelry stores, 5 furniture stores, 4 fashion stores, 3 sporting goods stores, and 2 electronics stores). We chose these types of retailers because in these industries, price negotiations are common (e.g., *Consumer Reports* 2013). The salespeople were, on average, 38 years of age; 72% were male; and they had an average of 15 years of work experience.

TABLE 3
Descriptive Statistics and Correlations for Studies 2 and 3

A: Study 2

	V1	V2	V3	V4	V5	V6	V7	V8
V1: Customer loyalty (pre)								
V2: Price sensitivity	–.39***							
V3: Negotiation intention	.27***	–.14						
V4: Discount	.15*	–.09	.36***					
V5: Discount satisfaction	.32***	–.31***	.33***	.49***				
V6: Customer loyalty (post)	.41***	–.53***	.19**	.12	.36***			
V7: Quality basis of loyalty	.32***	–.44***	.16*	.10	.46***	.60***		
V8: Price basis of loyalty	.31***	–.35***	.15*	.23***	.51***	.47***	.71***	
M	.00[a]	3.53	3.62	5.45	4.22	5.63	5.59	4.80
SD	.89[a]	1.67	1.72	6.10	2.23	1.25	.95	1.06
Cronbach's α	.75	.85	.79	—[b]	—[b]	.83	.70	.80
AVE	—[c]	—[c]	.63	—[b]	—[b]	—[c]	.53	.60

B: Study 3

	V1	V2	V3	V4	V5	V6	V7	V8	V9	V10
V1: Customer loyalty (pre)										
V2: Price sensitivity	–.50***									
V3: Negotiation intention	.08	.01								
V4: Retention intention	.21***	–.22***	.04							
V5: Discount	.13*	–.07	.24***	.18**						
V6: Discount satisfaction	.33***	–.36***	.28***	.33***	.30***					
V7: Customer loyalty (post)	.47***	–.55***	.03	.41***	.08	.46***				
V8: Relationship length	.37***	–.17***	–.11*	.23***	–.14*	–.01	.10*			
V9: Functional customer orientation	.27***	–.37***	.09	.38***	.20***	.39***	.42***	.11**		
V10: Relational customer orientation	.30***	–.42***	.15**	.26***	.06	.34***	.30***	.21***	.42***	
M	3.60	3.93	4.64	5.23	8.32	4.43	5.28	1.92	5.00	3.25
SD	2.00	1.73	1.63	1.40	9.66	1.62	1.43	4.32	1.40	1.50
Cronbach's α	.71	.88	.77	.86	—[b]	.81	.84	—[b]	.86	.70
AVE	—[c]	—[c]	.59	.66	—[b]	.60	—[c]	—[b]	.67	.46

*$p < .10$.
**$p < .05$.
***$p < .01$.
[a]Owing to different measurement scales, we z-transformed the items of this scale before calculating the score for the construct. For details on the measurement, see the Appendix.
[b]Single-item measure.
[c]Two-item measure.
Notes: Two-tailed tests of significance.

TABLE 4
Estimated Path Coefficients for Studies 2 and 3

Paths	Hypotheses	Study 2: Customer Mechanisms	Study 3: Salesperson Mechanisms
Hypothesized Effects in the Loyalty–Discount Cycle			
Customer loyalty (pre) → negotiation intention	H_3: +	.19***	.20***
Negotiation intention → discount		.34***	.30***
Customer loyalty (pre) → retention intention	H_6: +	—	.19***
Retention intention → discount		—	.38***
Interaction Effects in the Loyalty–Discount Cycle			
Customer loyalty (pre) × quality basis of loyalty → negotiation intention	H_7: –	–.15**	—
Customer loyalty (pre) × price basis of loyalty → negotiation intention	H_8: +	.15**	—
Customer loyalty (pre) × relationship length → negotiation intention	H_{9a}: +	—	.14**
Customer loyalty (pre) × relationship length → retention intention	H_{9b}: +	—	.10**
Negotiation intention × functional customer orientation → discount	H_{10}: –	—	–.16**
Negotiation intention × relational customer orientation → discount	H_{11}: –	—	–.17**
Additional Effects in the Loyalty–Discount Cycle			
Customer loyalty (pre) → price sensitivity		–.34***	–.47***
Price sensitivity → discount		n.s.	n.s.
Discount → discount satisfaction		.33***	.21**
Discount satisfaction → customer loyalty (post)		.17***	.20***
Main Effects of Moderators			
Quality basis of loyalty → negotiation intention		n.s.	—
Price basis of loyalty → negotiation intention		n.s.	—
Relationship length → negotiation intention		—	–.25***
Relationship length → retention intention		—	n.s.
Functional customer orientation → discount		—	n.s.
Relational customer orientation → discount		—	n.s.
Controlled Paths			
Customer loyalty (pre) → discount		n.s.	n.s.
Customer loyalty (pre) → discount satisfaction		.13**	.14**
Customer loyalty (pre) → customer loyalty (post)		.32***	.32***
Price sensitivity → negotiation intention		n.s.	.11*
Price sensitivity → discount satisfaction		–.18***	–.16**
Negotiation intention → discount satisfaction		.15**	.18***
Retention intention → customer loyalty (post)		—	.26***
Relationship length → discount		—	n.s.
Relationship length → discount satisfaction		—	n.s.
Functional customer orientation → discount satisfaction		—	.23***
Relational customer orientation → discount satisfaction		—	.13**
General bargaining propensity → negotiation intention		.54***	.43***
General bargaining propensity → retention intention		—	n.s.
Model Fit			
Pseudo R^2 for negotiation intention		.36***	.24***
Pseudo R^2 for discount		.13***	.30***

*$p < .10$.
**$p < .05$.
***$p < .01$.
Notes: One-tailed tests of significance. n.s. = not significant ($p > .10$). We report standardized coefficients

Over a period of three weeks, trained researchers approached customers in these stores after their interactions with salespeople and asked them to fill out a survey. For each participating customer, the salesperson who had consulted this customer also completed a survey. This procedure resulted in a dyadic data set comprising 327 customers (average age 42 years, 53% male). Of these 327 customer–salesperson interactions, 66% had ended with a purchase. The 34% of customers who made no purchase rated their purchase likelihood as 4.4 on average (on a seven-point scale anchored by 1 = "very low" and 7 = "very high").

Measures

Main variables. We collected the measures from three sources. First, in the salesperson survey, we measured the relationship length and the salesperson's retention intention. To operationalize retention intention, we developed and pretested a seven-point Likert-type scale (sample item: "I pay attention to maintain or extend the relationship with this customer"). The scale showed adequate psychometric properties (α = .86, average variance extracted [AVE] = .66). Second, the research team collected the variable discount. For this step, we trained the research team to

unobtrusively observe and listen to the salesperson–customer interactions from a distance. Furthermore, the research team had permission to inspect the store's sales tickets after the customers had completed their surveys and left. Third, we collected all other constructs (e.g., customer loyalty, negotiation intention, price sensitivity, discount satisfaction) in the customer survey.

Control variables. In line with Study 2, we controlled for a customer's general bargaining propensity (Schneider, Rodgers, and Bristow 1999). The Appendix provides an overview of all measures, and Table 3 presents descriptive statistics, correlations, and reliability diagnostics.

Model Specification and Estimation

We specified the path model depicted in Figure 2. The model comprises all main effects of Study 2 and an additional path for salesperson-related effects (customer loyalty [pre] → retention intention → discount). Furthermore, we included our proposed moderators. In particular, we generated the interaction term customer loyalty (pre) × relationship length and included this term as well as the main effect of relationship length in the regressions of customer loyalty (pre) on negotiation intention and retention intention. Furthermore, we generated the interaction effects negotiation intention × functional customer orientation and negotiation intention × relational customer orientation and included the interaction and main effects in the regression of negotiation intention on discount the customer received. To facilitate interpretation, we mean-centered all interacting constructs (Aiken and West 1991).

We estimated the model using Mplus Version 6.0. Because customers are nested within salespeople and salespeople are nested within industries, we estimated a three-level path model. Owing to missing data, we included 308 customers nested in 125 salespeople.

Results

Table 4 shows our results. In the following subsections, we describe what can be inferred from these results with regard to the hypotheses tested in Study 3 (H_3, H_6, $H_{9a–b}$, H_{10}, and H_{11}).

Results on core linkages. First, in H_3, we propose that negotiation intention mediates the effect of customer loyalty (pre) on discount. As Table 4 shows, the effect of customer loyalty (pre) on negotiation intention is positive and significant ($\beta = .20$, $p < .01$). Similarly, the effect of negotiation intention on discount is positive and significant ($\beta = .30$, $p < .01$). Moreover, the product of the two coefficients is significantly positive ($\beta = .06$, $p < .05$). Thus, H_3 is supported. These results fully corroborate our findings in Study 2.

Second, H_6 pertains to the salesperson-related path between customer loyalty (pre) and discount, predicting that retention intention mediates the effect of customer loyalty (pre) on discount. Indeed, the effect of customer loyalty (pre) on retention intention is significantly positive ($\beta = .19$, $p < .01$). Furthermore, the effect of retention intention on discount is significant and positive ($\beta = .38$, $p < .01$). In support of H_6, the product of the two coefficients is significantly positive ($\beta = .07$, $p < .05$). Because the direct effect of customer loyalty (pre) on discount is insignificant ($p > .10$), our results suggest that negotiation intention and retention intention fully mediate the effect of customer loyalty (pre) on discount.

Results on moderators. With regard to moderators, first, we consider the moderating effect of relationship length. In H_{9a} we propose that relationship length positively moderates the effect of customer loyalty (pre) on negotiation intention. The interaction coefficient is significant and positive ($\beta = .14$, $p < .05$); thus, H_{9a} is supported. H_{9b} suggests that relationship length also moderates the effect of customer loyalty (pre) on retention intention. The interaction coefficient is positive and significant ($\beta = .10$, $p < .05$), in support of H_{9b}.

Second, we turn to the moderating effects of customer orientation. In H_{10}, we propose that functional customer orientation negatively moderates the effect of negotiation intention on discount. The effect of the interaction term negotiation intention × functional customer orientation on discount is significantly negative ($\beta = –.16$, $p < .05$). Therefore, H_{10} is supported. Similarly, H_{11} suggests that relational customer orientation negatively moderates the effect of negotiation intention on discount. Because the effect of the interaction term negotiation intention × relational customer orientation on discount is indeed significantly negative ($\beta = –.17$, $p < .05$), H_{11} is supported. Thus, our results indicate that if a salesperson deploys functional or relational customer orientation, the effect of customer's negotiation intention on the discount weakens.

Additional results. Beyond these hypothesis tests, our results provide insight into further mechanisms of the loyalty–discount cycle. First, customer loyalty (pre) decreases price sensitivity ($\beta = –.47$, $p < .01$); however, this does not affect the discount ($p > .10$). Second, the discount a customer receives increases discount satisfaction ($\beta = .21$, $p < .05$), which in turn increases customer loyalty (post) ($\beta = .20$, $p < .01$). These findings corroborate Study 2 and substantiate our proposition of a loyalty–discount cycle.

Common method bias diagnostics. Because we measured several of our constructs in the customer questionnaire, results might be influenced by a common method bias. We therefore analyzed the effect of common method variance using an unmeasured latent method factor (Podsakoff et al. 2003) (for a description of the procedure, see Study 2). Because the model was robust against inclusion of the method factor, there is evidence that common method variance is not a serious concern in our study.

Study 4: Elucidating the Link Between Loyalty and Negotiation Intention

Because Studies 1–3 indicate that customer loyalty increases customers' negotiation intention and the discount ultimately received, our major goal in Study 4 is to discern the customer's psychological mechanisms responsible for the positive effect of loyalty on discounts. Thus, we attempt to

verify our proposition that customer loyalty fosters reward expectations and perceptions of elevated negotiation power, inducing the customer to strongly engage in price negotiations. Moreover, we aim to replicate the important finding from Study 2 that the effect of customer loyalty on price negotiation outcomes is more pronounced for customers with price-based loyalty than for customers with quality-based loyalty. To achieve these goals, using a simulated-sale experiment relying on trained actors, we tracked participants' actual negotiation behavior. In this section, we describe our experimental setup.

Methodology

Experimental design. For the simulated-sale experiment, we used a between-subjects design and randomly allocated 138 participants (52% female, 24.8 years of age on average) to four experimental conditions (2 × 2: customer loyalty: low vs. high × basis of loyalty: quality vs. price). We recruited participants on campus and asked them to read a fictional scenario in which they intended to purchase a car at a dealership. Prior studies in the marketing literature have frequently used this context (e.g., Galinat and Müller 1988), and price negotiations in this industry are common. Participants viewed the experiment as realistic (M = 5.25) and could easily imagine themselves in such a situation (M = 5.00).

For the manipulation of loyalty, we relied on an approach established in prior research (Keh and Pang 2010). In the low-loyalty condition, we informed participants that they had occasionally been a customer of this dealership but that they chose other dealerships most of the time. In the high-loyalty condition, we told participants that they had exclusively patronized this dealership. Regarding the manipulation of the basis of loyalty, we told participants that the reason for their prior purchases at this dealership was either the high quality (quality-basis condition) or the good prices they had received (price-basis condition). For details, see the Web Appendix.

Experimental procedure. Data collection for the experiment took two days, and we employed two trained actors as salespeople for the simulation (note that results of our analysis were not sensitive to the individual actor). After arriving, participants received the scenario description from a research assistant. The scenario informed participants that they planned to purchase a used car with specific attributes regarding brand, horsepower, and age. It also instructed them that they were visiting a used car dealership that offered a car matching their requirements, giving information about the car along with a picture. Finally, the scenario informed participants that they were about to encounter a salesperson from this dealership.

After reading the scenario, participants entered a separate simulation room where the salesperson welcomed them. We developed a standardized script for the salesperson to ensure that the selling behavior was identical over different interactions. The script comprised standardized responses to various customer reactions. During the sales encounter, participants interacted with the salesperson, who engaged them in a conversation by asking questions about their car-related preferences. The encounter continued with the salesperson probing whether the customer intended to purchase the car. Importantly, we instructed the salespeople not to raise price as an issue by themselves, but to wait for the customer to initiate a dialogue on price. After concluding the sales encounter by either purchasing or rejecting the car, participants left the simulation room and filled in a questionnaire on their reward expectations, perceived negotiation power, demographics, and completed manipulation checks on customer loyalty, basis of loyalty, perceptions of the scenario, and a hypotheses guessing test.

To gain data on actual negotiation behavior, we audiotaped all sales encounters and coded whether participants raised discount demands and the extent of those demands (for detailed descriptions, see the measures in the Web Appendix). Importantly, to preclude contaminating effects on negotiation behavior, we set up the simulation room so that encounters could be recorded unobtrusively.

To minimize the influence of demand effects on results, we used the remedy strategies proposed by Sawyer (1975): objective measurement of dependent variables, preventing treatment diffusion, and participant and experimenter anonymity. In addition, the 2 × 2 between-subjects design linked with an interactive simulation reduces the risk for such demand influences. Finally, we conducted a hypotheses guessing test, asking participants to indicate what they assumed to be the study's goal. None of the participants identified the goal.

Measures

Independent variables. Customer loyalty and the basis of loyalty were the main independent variables in Study 4. We used binary variables to reflect the four experimental treatment groups (coding for customer loyalty: 0 [1] for low- [high-] loyalty treatment group; coding basis of loyalty: 0 [1] for quality [price] for the basis of loyalty).

Mediating variables. The Web Appendix details the measures for reward expectation and perceived negotiation power, which we hypothesized to mediate the effect of customer loyalty on customers' discount claim. A sample item for reward expectation is the seven-point differential "I did not expect a reward for my purchase/I expected a reward for my purchase," and a sample item for perceived negotiation power is the seven-point differential "The salesperson had all of the negotiation power/I had all of the negotiation power."

Dependent variable. Customers' discount claim constitutes the key dependent variable in Study 4. We consider the discount claim the behavioral manifestation of a customer's negotiation intention. The variable is operationalized as the absolute amount of money the customer demands as discount. We extracted the variable from the audio recordings of the sales encounter, following an interrater coding approach. Two research assistants who were unaware of the study's goals independently coded the audiotapes, noting whether the customer asked for a discount and, if so, the extent of the requested discount. The research assistants were in agreement about all interactions.

Results

Manipulation checks. We initially verified that the treatments had the expected effects on participants. The manipulation checks for customer loyalty and basis of loyalty show that the treatments worked as intended (customer loyalty: $M_{high\ loyalty} = 6.67$, $M_{low\ loyalty} = 2.52$, $p < .001$; basis of loyalty: $M_{quality\ basis} = 6.00$, $M_{price\ basis} = 2.80$, $p < .001$). The Web Appendix details measures for the manipulation checks.

Analytic procedure. We conducted a two-step procedure to analyze the data. First, we analyzed how the basis of loyalty affects the link between customer loyalty and discount claim. Thus, this analysis provides further tests of H_7 and H_8, which propose that the effect of customer loyalty on negotiation intention is more pronounced for price-based loyalty and less pronounced for quality-based loyalty. Second, we analyzed whether reward expectation and perceived negotiation power mediate the effect of customer loyalty on negotiation intention as proposed in H_4 and H_5. Methodologically, for both analyses we included treatment dummy variables in structural equation models (Bagozzi 1977).

Figure 3 depicts the results for each of the three analyses outlined previously. Next, we discuss our findings and interpret them in light of our hypotheses.

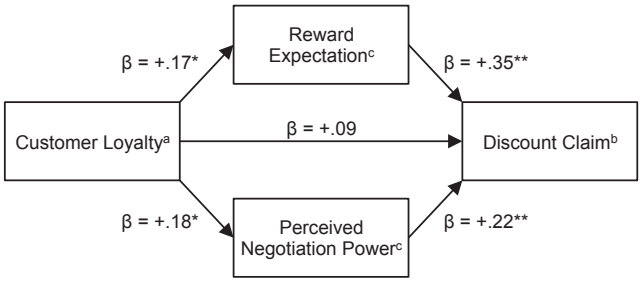
Testing the basis of loyalty as a moderator. In the first analysis, we estimated a regression model entering customers' discount claim as the dependent variable and the binary loyalty treatment variable (1 = high loyalty, 0 = low loyalty), the binary basis of loyalty treatment variable (1 = price basis, 0 = quality basis), and the interaction term of both treatment variables as the independent variables. The results show that the direct effects of both treatment dummies are in the expected direction ($\beta_{loyalty} = .22$, $p < .05$; $\beta_{basis\ of\ loyalty} = .04$, $p > .10$) and that the interaction effect of the treatment dummies is significantly positive ($\beta_{loyalty} \times \beta_{basis\ of\ loyalty} = .23$, $p < .05$). Thus, our results indicate that a price basis enhances the effect of customer loyalty on the claimed discount, providing additional support for H_7 and H_8. In addition, a simple slope analysis indicates that the positive effect of loyalty on discount claim holds for price-based loyal customers ($\beta_{loyalty} = .51$, $p < .01$) as well as quality-based loyal customers ($\beta_{loyalty} = .20$, $p < .05$). Figure 3 illustrates the estimation results.

Testing reward expectation and perceived negotiation power as mediators. In the second model, we entered reward expectation and perceived negotiation power as mediators in the loyalty–discount claim chain. We log-transformed the discount claim to mitigate skewness (Banasiewicz 2013). The results show that customer loyalty increases both reward expectation ($\beta = .17$, $p < .05$) and perceived negotiation power ($\beta = .18$, $p < .05$). Furthermore, the discount claim is increased by both reward expectation ($\beta = .35$, $p < .01$) and perceived negotiation power ($\beta = .22$, $p < .05$). As we expected, the indirect effect of customer loyalty on discount claim through reward expectation is positive and significant ($\beta_{loyalty \rightarrow reward\ expectation \rightarrow discount\ claim} = .06$, $p < .05$). Moreover, the indirect effect of customer loyalty on discount claim through perceived negotiation power is positive and significant ($\beta_{loyalty \rightarrow perceived\ negotiation\ power \rightarrow discount\ claim} = .04$, $p < .05$). Because the direct effect of loyalty on discount claim is not significant ($\beta = .09$, $p > .10$), the results indicate that reward expectation and perceived negotiation power fully mediate the effect of loyalty on discount claim. Thus, our data support H_4 and H_5.

FIGURE 3
Results of Study 4

A: Moderation Model

B: Mediation Model



*$p < .05$.
**$p < .01$.
[a]Dummy variable for customer loyalty (1 = high loyalty, 0 = low loyalty).
[b]Actual negotiation behavior (log-transformed).
[c]Three-item survey measure.
Notes: One-tailed tests of significance. We report standardized coefficients. We controlled for the quality basis of loyalty condition through a dummy variable. CFI = 1.00; TLI = 1.00.

Discussion

Research Insights

Summary of results. The effect of customer loyalty in price negotiations has never been examined empirically—a surprising omission given the high prevalence of both customer loyalty and price negotiations in marketing research and practice. Our study is the first to address this issue, focusing on retail contexts in which customers are accustomed to haggle (e.g., cars, jewelry, furniture). We find that

loyal customers on average receive greater discounts in price negotiations for two reasons: (1) loyal customers develop a stronger intention to negotiate, which is driven by their expectation of a reward for their loyalty and their use of their elevated perceived negotiation power; and (2) salespeople intend to retain loyal customers and therefore grant discounts more willingly. We find that these effects are moderated by the basis of customer loyalty (quality vs. price), relationship length, and salespeople's functional and relational customer-oriented behavior.

Theoretical contributions. Our study advances academic knowledge in several ways. Most importantly, we provide initial insight into the research void that involves the relationship between customer loyalty and price enforcement in retail contexts in which customers bargain over prices. Most prior studies on customer loyalty have focused on typical behavioral outcomes of customer loyalty, such as repeat business, word of mouth, and price sensitivity (e.g., Kamakura et al. 2002; Palmatier, Scheer, and Steenkamp 2007; Srinivasan, Anderson, and Ponnavolu 2002). Our results suggest that a customer's demand for a loyalty reward, such as a discounted price, is essential to develop more complete models of customer loyalty outcomes. The findings illustrate that loyal customers are not enthusiasts naively following the companies to which they are loyal but rather are rational actors carefully evaluating their utility.

Second, our results contribute to an expanding body of work examining the adverse effects of customer loyalty (e.g., Anderson and Jap 2005; Grayson and Ambler 1999). Whereas conventional wisdom posits that customer loyalty is highly desirable (e.g., Reichheld 2001), our findings show an important downside of customer loyalty: loyal customers of retailers for which bargaining is common receive greater discounts.

Third, our study contributes to the research stream examining the relationship between customer loyalty and price sensitivity. Specifically, we discover ambivalent effects of loyalty on customer-related price variables. Although our results support the findings of previous studies that loyal customers are less price sensitive (e.g., Guadagni and Little 2008), at the same time, loyal customers strive for greater discounts to achieve exchange equity in the relationship. Thus, loyal customers are willing to pay more—but eager to pay less. Future studies should account for this ambivalence to avoid confounding these countervailing effects.

Cultural dependence. Negotiations are significantly influenced by the cultural context in which they take place (e.g., Gelfand et al. 2013). One major cultural dimension that affects negotiations is individualism versus collectivism (Hofstede 1991), with research showing that negotiators from individualistic cultures tend to focus on their own outcomes and show less concern for others' outcomes (Chen, Mannix, and Okumura 2003; Li, Tost, and Wade-Benzoni 2007). Because our study locale, Germany, can be characterized as a moderately individualistic culture (Hofstede 1991), our study participants may have had a cultural predisposition to use their loyalty as an argument to enforce discount claims. In more collectivist cultures (e.g., Japan, China), loyal customers may focus more on preserving their relational capital and therefore refrain from demanding a loyalty discount (Yamagishi and Yamagishi 1994). Conversely, in more strongly individualistic cultures (e.g., Western countries such as the United States), the effect of customer loyalty on discount may be comparable or even more pronounced.

Managerial Implications

Most importantly, our study should raise managers' awareness of the loyalty–discount cycle. In particular, Study 1 shows that loyal customers of the jewelry retailer we worked with achieve greater discounts. In return for these discounts, customers become even more loyal, leading to a downward spiral of the retailer's price enforcement. These mechanisms show that the loyalty–discount cycle is a double-edged sword: on the one hand, discounts negatively affect the margin on sales; on the other hand, discounts increase customer loyalty and thus lead to a steady revenue stream from a store's patronage. Managers must explicitly consider this trade-off and decide how much loyalty they are willing to "buy" through discounts.

Beyond these strategic assessments, our results provide guidance on what managers and salespeople can specifically do to outwit the loyalty–discount cycle. First, we found that loyal customers' increased negotiation intention is not primarily driven by economic motives but by the motive to receive a reward for their loyalty. Companies should focus on fulfilling this need for a reward by means less costly than discounts, such as special treatments (e.g., dedicated personnel, faster service) or rewards for which the value to the customer exceeds the costs for the company (e.g., a free product or product component). In this respect, a basic salesperson strategy to escape the loyalty–discount cycle is the use of functional and relational customer-oriented behavior. These behaviors reduce the negotiation intention–discount effect and, importantly, increase discount satisfaction at the same time (see Table 4). Notably, for the jewelry retailer in Studies 1 and 2, relational customer orientation is an unused lever: the retailer's management has been training the sales force in functional but not relational techniques.

Second, we found that the loyalty–discount cycle is more pronounced if a salesperson and a loyal customer have known each other for some time. Not only do loyal customers bargain more, but salespeople also grant discounts more willingly under these circumstances. A potential remedy strategy may be to call in a salesperson unacquainted with the customer to the price negotiation only. A similar approach prevails in automobile retailing, in which salespeople frequently take customers' price offers to the manager for consideration. The jewelry retailer in Studies 1 and 2 may thus establish levels defining for which discount claims salespeople should "talk to the manager."

Third, we found evidence that customers who are loyal because of superior quality and service are less inclined to bargain over price. Companies should thus work to establish quality-based rather than price-based customer loyalty by consistently emphasizing high quality when interacting with customers and thus establishing a quality image. Con-

sistent with its high-end positioning, the jewelry retail chain we worked with trained salespeople to persistently communicate the high quality of the offers to the customer.

Limitations and Further Research

Our study has several methodological and contextual limitations that may be addressed by further research. First, in Study 1, we operationalized customer loyalty as the number of purchase events instead of the more common measure, share of wallet. Future studies might analyze the effect of share of wallet on discount. Second, the response rate of our mail survey in Study 2 was 15.4%. Despite our finding that early and late respondents as well as nonrespondents did not differ significantly, we cannot completely rule out a nonresponse bias. Third, in Study 3, our research team observed the price negotiations between salespeople and customers. Although these observations were unobtrusive and made from a distance, we cannot exclude the possibility that they influenced the dynamics of the negotiation. Fourth, in our studies, we analyzed selected moderators. Further research should examine additional moderators to establish a more comprehensive view on the links within the loyalty–discount cycle. For example, the effect of customer loyalty on a salesperson's retention intention may depend on factors not examined in our study, such as the salesperson's work engagement, loyalty to the employer, and the incentive system. Furthermore, relationship rewards other than functional and relational customer orientation might be useful to attenuate the effect of customer loyalty on discount.

Turning to contextual limitations of our study, our results hold only for retail contexts in which customers interact with salespeople and bargain over prices (e.g., cars, jewelry, furniture). This context entails two limitations. First, the retail industries we examined bear several characteristics that may facilitate the existence of a loyalty–discount cycle, such as excess supply, high price transparency, and relatively low switching costs. Future studies should examine whether a loyalty–discount cycle also characterizes more complex industries (e.g., business-to-business solutions). Second, our study does not allow us to draw inferences for retail industries in which price negotiations are *not* common—for example, industries without customer–salesperson interactions (e.g., self-service stores, e-retailers). In these industries, loyal customers may still expect rewards for their loyalty. Future studies might examine loyal customers' behavior in such environments.

Conclusion

Our study examines the effect of customer loyalty in price negotiations in retailing. We find that loyal customers on average obtain greater discounts, which in turn drives customer loyalty. This loyalty–discount cycle is particularly pronounced if customer loyalty is based on price as opposed to quality and if customers and salespeople have been acquainted for some time. Salespeople can reduce the discounts granted to loyal customers by behaving in a customer-oriented manner. We hope that our findings instigate future studies to further explore the complex dynamics between loyal customers and salespeople in price negotiations.

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APPENDIX
Measures for Studies 2 and 3

Construct	Definition	Studies	Items	Source
Customer loyalty (preinteraction)	The degree to which a customer rebought at or repatronized a store before the interaction with the salesperson	2, 3	•How often have you purchased jewelry products at this store compared to other stores during the past year? •What percentage of your total expenditures for jewelry products have you spent in this store during the past year?[a,b] •In the past, I purchased at this store more frequently than at other stores in this industry.[c]	De Wulf, Odekerken-Schröder, and Iacobucci (2001)
Customer loyalty (postinteraction)	A customer's commitment to rebuy at or repatronize a store after the interaction with the salesperson	2, 3	•The probability that I will purchase at this store in the future is very high. •The probability that I will recommend this store is very high.	Johnson, Herrmann, and Huber (2006)
Price sensitivity	The willingness to remain a customer at a store in case of an increase of the store's price level relative to other stores	2, 3	•I would have stayed a customer of this store prior to this purchase even if the price would have increased slightly.[d] •I would have stayed a customer of this store prior to this purchase even if the price at other stores would have been slightly lower.[d]	Zeithaml, Berry, and Parasuraman (1996)
Negotiation intention	The extent to which a customer intends to engage in a price negotiation to obtain a discount	2, 3	•I intended to ask for a discount prior to this purchase. •I intended to significantly negotiate down the price prior to this purchase. •I expected to realize a good price prior to this purchase.	Lee (2000)
Discount	The concession a customer receives on the list price of a product	2, 3	•Discount received at last purchase (in percent) (Study 2: transaction data from company records; Study 3: observer data[a])	N.A.
Discount satisfaction	The extent to which a discount pleases the customer	2, 3	•I am very satisfied with the discount I received at this purchase. •I am very satisfied with the concessions I received at this purchase.[c] •I think I got the most out of the price negotiation at this purchase.[c]	Oliver, Balakrishnan, and Barry (1994)
Quality basis of loyalty	The degree to which a customer perceives the store to offer superior quality	2	•This store offers better quality than its competitors. •In my opinion, this store offers very good quality. •In my opinion, this store offers very good service.	Gustafsson, Johnson, and Roos (2005); Oliver (1999)
Price basis of loyalty	The degree to which a customer perceives the store to offer superior prices	2	•This store offers better prices than its competitors. •I am very satisfied with the prices I have received at this store in the past. •In my opinion, this store offers very good prices.	Gustafsson, Johnson, and Roos (2005); Oliver (1999)
Relationship length	Number of years the salesperson and the customers have known each other at the time of the purchase	3	•For how many years have you known the customer?[a,e]	N.A.
Functional customer orientation	A set of task-related behaviors aimed at identifying and addressing customers product needs	3	The salesperson … •…tried to figure out my needs. •…had my best interests in mind. •…recommended products that suited my needs.	Homburg, Müller, and Klarmann (2011)
Relational customer orientation	A set of behaviors to fulfill emotional needs and to establish a personal relationship with customers	3	The salesperson … •…sympathized with me about the problems associated with the purchase. •…complimented and praised me. •…discussed shared interests and hobbies prior to discussing sales issues.	Homburg, Müller, and Klarmann (2011)

APPENDIX
Continued

Construct	Definition	Studies	Items	Source
General bargaining propensity	The customer's positive attitude toward negotiating over the price of products or services	2, 3	•I enjoy negotiating prices. •When shopping for expensive items, I look forward to the chance to bargain over the final price. •I don't mind negotiating prices.	Schneider, Rodgers, and Bristow (1999)
Retention intention	The extent to which a salesperson places value on maintaining a business relationship with a specific customer	3	•It is important to me to keep this customer.[e] •It would bother me if the customer stopped purchasing at our store.[e] •I pay attention to maintain or extend the relationship with this customer.[e] •I would regret losing this customer.[e]	Current research operationalization

[a]Measured through an open field. We measured all other items on seven-point Likert scales.
[b]Dropped in Study 3.
[c]Added in Study 3.
[d]Reverse coded.
[e]Measured in salesperson survey.
Notes: N.A. = not applicable.

WEB APPENDIX

Willing to Pay More, Eager to Pay Less: The Role of Customer Loyalty in Price Negotiations

Jan Wieseke, Sascha Alavi, and Johannes Habel

SUPPLEMENTAL ANALYSIS FOR STUDY 1

While our results for Study 1 support the existence of a loyalty-discount cycle, we perform three further supplemental analyses to substantiate our findings.

First, the coefficients between customer loyalty and discount as well as vice versa differ for different years. However, we are interested in the effects over time of customer loyalty on discount and of discount on customer loyalty. Therefore, we replicated the model depicted in the paper, constraining the two effects of customer loyalty on discount and the two effects of discount on customer loyalty to be equal. Table W1 shows the results. All effects remain consistent with the unconstrained model, providing further support for H_1 and H_2. Again, the global fit of the model is acceptable (comparative fit index = .996, Tucker-Lewis index = .984, root mean square error of approximation = .014, standardized root mean square residual = .013). Moreover, the model achieves the fit of the unconstrained model ($\Delta\chi^2 = 2.70$, $\Delta df = 2$).

Table W1: Results of the Constrained Model for Study 1

Path		Hypotheses	Estimated Coefficients
Hypothesized Effects			
Customer Loyalty (2008)	→ Discount (2009)	H_1: +	.06***
Discount (2009)	→ Customer Loyalty (2010)	H_2: +	.07***
Customer Loyalty (2010)	→ Discount (2011)	H_1: +	.06***
Discount (2011)	→ Customer Loyalty (2012)	H_2: +	.05***
Autoregressive Paths			
Customer Loyalty (2008)	→ Customer Loyalty (2012)		n.s.
Customer Loyalty (2010)	→ Customer Loyalty (2012)		n.s.
Customer Loyalty (2008)	→ Customer Loyalty (2010)		.02**
Discount (2009)	→ Discount (2011)		.79***
Revenue Controls			
Revenue (2011)	→ Discount (2011)		.08***
Revenue (2010)	→ Discount (2011)		-.06***
Revenue (2009)	→ Discount (2009)		.08***
Revenue (2008)	→ Discount (2009)		n.s.
Sub-brand Controls			
Sub-brand A	→ Customer Loyalty (2010)		n.s.
Sub-brand A	→ Customer Loyalty (2012)		-.05***
Sub-brand A	→ Discount (2009)		.05**
Sub-brand A	→ Discount (2011)		n.s.
Sub-brand B	→ Customer Loyalty (2010)		-.05***
Sub-brand B	→ Customer Loyalty (2012)		-.09***
Sub-brand B	→ Discount (2009)		n.s.
Sub-brand B	→ Discount (2011)		n.s.
Model Fit			
Comparative fit index (CFI)			.996
Tucker-Lewis index (TLI)			.984
Root mean square error of approximation (RMSEA)			.014
Standardized root mean square residual (SRMR)			.013

n.s. $p > .10$, * $p < .10$, ** $p < .05$, *** $p < .01$ (one-tailed)
Notes: We report standardized coefficients. The sizes of the two effects of discount on customer loyalty differ owing to different standard deviations, which are used to compute standardized coefficients.

Second, our decision to start the chain of effects with customer loyalty in 2008 instead of discount in 2008 is due to the sequence of our hypotheses, which start with the effect of customer loyalty on discount (H_1). To ensure the robustness of our results, we estimated an alternative model with customer loyalty and discount lagged by one additional year. Hence, this model linked discount in 2008 to customer loyalty in 2009 ($\beta = .27$, $p < .01$), customer loyalty in 2009 to discount in 2010 ($\beta = .11$, $p < .01$), discount in 2010 to customer loyalty in 2011 ($\beta = .08$, $p <$

.01), and customer loyalty in 2011 to discount in 2012 ($\beta = .04$, $p < .05$). The results are consistent with the models in Table 2 and provide further support for H_1 and H_2.

Third, in our analyses we broke out the data by year intervals. To test whether our findings are robust to period length, we estimated an alternative model with six-month intervals as the basis of analysis (with S1 indicating the first six months and S2 indicating the second six months of the year). Thus, we estimated a model linking customer loyalty in S2/2010 to discount in S1/2011 ($\beta = .07$, $p < .01$), discount in S1/2011 to customer loyalty in S2/2011 ($\beta = .04$, $p < .05$), customer loyalty in S2/2011 to discount in S1/2012 ($\beta = .08$, $p < .01$), and discount in S1/2012 to customer loyalty in S2/2012 ($\beta = .03$, $p < .05$). We also estimated a model lagged by an additional six months—that is, linking discount in S2/2010 to customer loyalty in S1/2011 ($\beta = .05$, $p < .01$), customer loyalty in S1/2011 to discount in S2/2011 ($\beta = .02$, $p < .05$), discount in S2/2011 to customer loyalty in S1/2012 ($\beta = .04$, $p < .01$), and customer loyalty in S1/2012 to discount in S2/2012 ($\beta = .03$, $p < .05$). The results show that our findings are robust to period length.

Our fourth supplemental analysis concerns the effect sizes. While the effects between customer loyalty and discount as well as between discount and customer loyalty are highly significant, the effect sizes appear to be rather small. We therefore analyzed what discount rates loyal and non-loyal customers actually realize. To this end, we compared the mean discount given to non-loyal customers (scoring 0 or 1 on customer loyalty in the year before) to the mean discount given to loyal customers (scoring 2 or higher on customer loyalty in the year before). The results indicate a mean 2012 discount of 5.9% for non-loyal and 9.5% for loyal customers, a mean 2011 discount of 6.0% for non-loyal and 11.3% for loyal customers, a mean 2010 discount of 6.5% for non-loyal and 14.3% for loyal customers, and a mean 2009 discount of 6.6% for

non-loyal and 11.0% for loyal customers. All differences are highly significant ($p < .01$). Hence, despite the relatively small coefficients in the estimated model, loyalty discounts substantially affect the financials of a company.

STIMULI FOR THE SIMULATION IN STUDY 4

All Conditions

Please imagine you would like to buy a used car with the following criteria:

- Model: VW Golf or equivalent
- Horsepower: min. 70
- Build year: not earlier than 2009

To find a corresponding car, you visit the car dealership Auto Muller.

Low-Loyalty Condition	High-Loyalty Condition
Before today's visit you have occasionally been a customer of this dealership. However, in the past you and your family purchased most of your cars and accessories from other dealerships. The reason that you choose Auto Muller occasionally is mainly …	You have been a regular customer of this dealership for many years. In the past, you and your family purchased your cars and accessories from Auto Muller exclusively. The reason that you choose Auto Muller so often is mainly …

Quality-Basis Condition	Price-Basis Condition
… the good quality this car dealership has offered you in the past.	… the good price this dealership has offered you in the past.

All Conditions

Upon arriving at the car dealership, the salesperson, Mr. Smith, discusses your requirements with you. He then shows you a used car that matches your criteria:

- Model: VW Golf
- Horsepower: 80
- Year built: 2009
- Price: € 6,700

You are about to meet Mr. Smith in person. Please behave exactly like you would behave in reality. There is no "right" or "wrong" behavior.

MEASURES FOR STUDY 4

No.	Construct	Definition	Source	Measurement	α	AVE
1	Discount Claim	The absolute amount of money which a customer demands as discount	Audio recordings of the negotiation experiment	Coded by two research assistants from the audio recordings	—	—
2	Customer Loyalty	The degree to which a customer rebought at or repatronized a store before the interaction with the salesperson	Experimental manipulation	Dummy set to 0 (1) for low (high) loyalty treatment group; manipulation check via 7-point semantic differential "I am a non-loyal customer of Auto Muller" to "I am a loyal customer of Auto Muller"	—	—
3	Quality (Price) Basis of Loyalty	The degree to which a customer perceives the store to offer superior quality (prices)	Experimental manipulation	Dummy set to 0 (1) for quality- (price-)basis of loyalty; manipulation check via 7-point semantic differential "My decisions for Auto Muller are based on the dealership's prices" to "My decisions for Auto Muller are based on the dealership's quality"	—	—
4	Reward Expectation	A customer's perception that he or she deserves a gratification from a company	Participant survey after the experiment	7-point semantic differentials: • "I did *not* expect a reward for my purchase" to "I expected a reward for my purchase" • "I did *not* demand special treatment from the retailer" to "I demanded special treatment from the retailer" • "I was *not* of the opinion to deserve a gratification for my purchase" to "I was of the opinion to deserve a gratification for my purchase"	.81	.61
5	Perceived Negotiation Power	A customer's perceived ability to influence a price negotiation	Participant survey after the experiment	7-point semantic differentials: • "The salesperson had all of the negotiation power" to "I had all of the negotiation power" • "I did *not* have much power to negotiate about the price" to "I had much power to negotiate about the price" • "The salesperson had a stronger starting position for a price negotiation" to "I had a stronger starting position for a price negotiation"	.76	.53