

The Effects of Price Promotions on New Customer Acquisition for Information Goods

Daniela Schmitt

Nova School of Business and Economics

Rom Schrift

Kelley School of Business, Indiana University

Raghu Iyengar

The Wharton School, University of Pennsylvania

Florian Stahl

University of Mannheim

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Abstract

Can price promotions help firms acquire profitable customers? Research from consumer packaged goods suggests that promotionally-acquired customers have little long-term value. We examine whether this answer holds for price promotions for information goods (e.g., digital newspapers). One notable feature of companies selling such goods is that they employ a dual revenue model - customers pay to access the service and advertisers pay based on customers' consumption. Here, a promotion may still attract customers with low willingness to pay. These customers, however, can become profitable based on their consumption. We empirically assess the tradeoff between lower subscription and higher advertising revenue using individual-level data from a digital newspaper that implemented its first ever price promotion. We find that promotionally acquired customers can be more valuable than those who join at the regular price. We propose self-selection as the main driver of our results.

Keywords: *Price Promotions; Customer Acquisition; Digital Subscriptions*

Track: Pricing & Promotions