

CAN RESTRICTIVE CUSTOMER ACQUISITION POLICIES BE EFFECTIVE IN MARKETS THAT TRANSITION FROM ILLEGAL TO LEGAL? EVIDENCE FROM THE SEX TRADE

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This examination of sellers of sexual services finds that exclusive channels that impose a cost on prospects lead to greater customer acquisition than inclusive channels such as social media and web searches.

EXTENDED ABSTRACT

RESEARCH QUESTION

This research heeds the call for greater research on sensitive topics. It examines customer acquisition in a market that has transitioned from illegal to legal, the sex trade. Markets that make such transitions are often limited in their ability to promote themselves because of policies aimed at limiting both supply and demand of the newly legal offering and those aimed at protecting vulnerable groups. Gambling, alcohol, and marijuana are but a few examples of such transitioned markets. The transition usually brings policy restrictions on operations as well as marketing. For instance, in the sex trade context, which is the focus of this study, policies allow sellers to operate but not to promote their offerings. This raises the question of how firms can acquire customers.

This paper explores this question through the lens of on customer asymmetry. The high cost of customer acquisition is a result of an information asymmetry where sellers are unable to differentiate between prospects and legitimate customers. In the transitional market the costs are higher for both buyers and sellers because there are both legal as well as reputational costs.

METHOD AND DATA

The selling of sexual services is legal in Canada but their purchase and the promotion of the services is illegal. Sellers are unable to promote themselves using traditional channels. We

partnered with a fetish studio in a major metropolitan city in Canada. The studio provides fetish services similar to those documented in the best-selling novel *50 Shades of Gray*. There is no sexual intercourse provided but the purchase and promotion of these services is illegal based on Canadian federal law. The studio-maintained records of potential customers, when they were contacted, the services requested, the amount of time requested, the marketing channel that the customer went through, and whether a session occurred. The three primary channels were: social media (Twitter), web-search, and an online forum where the participants would have to register before they could contact other users.

The studio was contacted 158 times between March and June, 2019 and resulted in 82 booking of new clients. We used an accelerated hazard model to uncover the probability of booking over time based on the marketing channel (social media, web search, or online forum). Due to our low sample size we augmented the accelerated hazard model with a Bayesian analysis to determine the probability of booking based on marketing channel.

SUMMARY OF FINDINGS

Our findings revealed that the online forum had the greatest positive impact on customer acquisition in the least amount of time. Both social media and a web search attracted potential clients but the rate of acquisition for these prospects was considerably lower.

Unlike research from traditional markets which suggests that the more inclusive interactive channels such as social media have the greatest customer acquisition (Srinivasan, Rutz, and Pauwels 2015), the best rate of acquisition was accomplished through the more restrictive channel, the online forum which required prospects to pre-register. The results demonstrate that policies that restrain promotion do not necessarily hinder sellers' ability to acquire prospects and may be beneficial for markets in transition that require policy makes to vulnerable populations as well as sellers.

KEY CONTRIBUTIONS

This study contributes to theory on customer acquisition by demonstrating that an exclusive channel that imposes costs on potential customers (in this case, the cost of registration for an online forum) leads to higher customer acquisition than the more inclusive channels in traditional markets. Unconventionally, a channel that makes it more difficult for customers to approach the seller by having them incur the cost of registration increases the likelihood that the seller will make a purchase.

These findings have direct relevance to policy makers, who are responsible for setting the operational rules for newly legal sellers when markets transition from illegal to legal. Concerns that existed before the market became legal remain. In our context, the marketing of sexual services is prohibited so as not to encourage consumption. However, the findings suggest that a more nuanced approach to restricting communication channel may benefit both policy makers and sellers. Indeed, by imposing the cost of registration on potential customers, the online forum creates restrictions on customers without policy makers having to restrict them. This channel is

also worthwhile for sellers since those prospects acquired via the online forum are more likely to become customers.

References are available upon request.