The Role of Consumer Inferences About Price Discounts in Influencing Switching Behavior

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SHORT ABSTRACT

Past research in the area of price discounts oriented sales promotions has generated a rich, but diverse and mixed body of literature. Furthermore, recent research suggests that consumers are likely to generate a variety of inferences in response to promotional offers, ranging from economic to hedonic and informational. This research examines the role of consumer’s preference strength and product category risk in influencing the nature (consumer benefits vs. marketer tactics focused) as well as valence (negative vs. positive) of the inferences generated by consumers in response to price discounts offered by competitor brands. This research argues and empirically demonstrates the role of these inferences in influencing the brand switching likelihood.

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EXTENDED ABSTRACT

Past research in the area of price discounts oriented sales promotions has generated a rich, but diverse and mixed body of literature. Furthermore, recent research suggests that consumers are likely to generate a variety of inferences in response to promotional offers, ranging from economic to hedonic and informational (Chandon, Wansink and Laurent 2000; Schwarz 2004) we focus on two types of consumer inferences: those that focus on the benefits/costs to the consumer; and those that deal with persuasion strategies, tactics and motivation of the marketer. We propose that the former type of inferences (consumer focused) are easier to generate and more likely to spontaneously occur when elaboration likelihood is relatively low. The latter types of inferences are metacognitive in nature, which are more effortful to generate, and thereby, expected to dominate when the consumer’s elaboration likelihood is relatively high. Further, we argue that compatibility between type of inference generated and other informational inputs (e.g., consumer’s goal) will determine the likelihood of switching. We present empirical evidence from one experiment that supports our central thesis.

The experiment used a 2 (strength of preference: high, low) X 2 (perceived risk in the product category: high, low) X 2 (size of inducement: high, low) between subject design. Four control groups (one for each combination of preference strength and perceived risk) in which subjects were not offered any economic inducement were also run. Two hundred fifty-two undergraduate students participated in the study.

Our results provide very interesting insights regarding how consumers’ response to competitor inducements varies depending upon their preference strength for the incumbent brand and perceived risk in the product category. Our data suggest that depending upon these factors, consumers might make positive or negative inferences relating to the same sized discount. Our research adds to the emerging stream of research in consumer behavior which suggests that consumers inferences may be more important than pure economic benefits, in determining the effectiveness of discounts (e.g., Raghurub, Inman and Grande 2004).

The findings demonstrate that any discount in a high-risk product category is likely to be ineffective in wooing consumers who have formed strong preferences. In contrast, large discounts tend to be extremely effective for the low preference strength consumers or “switchers” in the high risk categories. It is important to note that even the “strong” preference groups in our study represented relatively “weak” preferences compared to the marketplace where consumers are likely to have past experience as well as more information and interaction with their preferred brands. Therefore, our results suggest that in high risk product categories, discounts are only likely to motivate “switchers”. And that too, only large discounts, since our data demonstrated the ineffectiveness of the small discounts in this condition.

With regards to the low risk conditions, it appears that discounts (only large ones) are likely to be effective in inducing some of the consumers who prefer a competitive brand to switch. More importantly, even when consumers don’t switch in response to the discount, the process of being exposed to it is itself likely to reduce the strength of their preference for their chosen brand. In essence, large discounts are likely to leave these consumers more vulnerable to switching in response to future inducements. Price discounts, however, don’t seem to be as effective for the “switcher” segment in the low risk condition (as compared to the “high risk” condition). Importantly, the low preference strength consumers who are able to resist these discounts are not rendered any more likely to switch in the future.

REFERENCES


