Too Good to Be True Vs. Too High to Be Good: the Role of Product’s Price and Form of Incentive in Sales Promotion Evaluations

Igor Makienko, Louisiana State University

Study investigates how the form of incentive (monetary vs. nonmonetary) and the price level of a promoted product (normally priced vs. overpriced) affect consumers’ evaluations of economically identical deals. Although the first factor has received significant attention in previous research, only a modest degree of effort has been devoted to the second factor. Contrary to previous findings on strong positive effect of high implausible reference prices, results of this study indicate that when a promoted product is overpriced, respondents’ perceptions of the deal are significantly lower than when a promoted product is normally priced (regardless of the form of incentive).

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/12381/volumes/v33/NA-33

[copyright notice]:
This work is copyrighted by The Association for Consumer Research. For permission to copy or use this work in whole or in part, please contact the Copyright Clearance Center at http://www.copyright.com/.
Too Good to be True vs. Too High to be Good: The Role of Product’s Price and Form of Incentive in Sales Promotion Evaluations
Igor Makienko, Louisiana State University

Conceptual Background
According to the perceived value concept (Monroe and Chapman, 1987), consumers evaluate market offers based on the ratio of perceived quality to perceived sacrifice. In a sales promotion context, this means that deal evaluations should be positively related to the size of incentive because an incentive would decrease a consumer’s perceived sacrifice and, as a result, enhance the perceived value of the offer. However, there are some limits on the size of discounts that retailers can offer during sales promotions. One way to increase the size of an incentive while keeping the sale price of a deal constant is to show a higher regular (reference) price. Blair and Landon (1981) note that consumers can be skeptical of implausible reference prices, and at the same time, be influenced by them. Indeed, Urbany, Bearden and Weilbaker (1988) found that after exposure to implausible reference prices, consumers update their internal reference standards upward. This adjustment leads to a substantial increase in the perceived value of the offer despite decreasing believability of such claims. Therefore, it is expected that when consumers are exposed to overpriced products and bigger incentives, they will have higher evaluations than when they are exposed to normally priced products and respectively lower incentives. However, there will be an interaction if the second factor—the form of incentive is taken into account.

One major difference between the two forms of incentives is that with a monetary incentive consumers do not need to pay the regular (reference) price for the offer, while with a nonmonetary incentive, they do. (For the sake of simplicity the study is limited only to instant sales promotions). Situations where consumers pay only sale price for the offer are identical to reference price advertising, and consumers are likely to have higher evaluations for the overpriced condition. However, when consumers have to pay regular price and get a nonmonetary incentive with the purchase, a high regular price of the offer may result in a perceived unfairness and trigger negative feelings toward the retailer (Xia, Monroe and Cox, 2004; Martins and Monroe, 1994). In this case, consumers’ evaluations in the normally priced condition are likely to be higher than those in the overpriced condition (despite greater nonmonetary incentives in the overpriced condition).

Therefore, it is hypothesized that consumers’ evaluations and purchase intentions toward instant monetary promotions will be higher when the promoted product is overpriced than when it is normally priced. Conversely, consumers’ evaluations and purchase intentions toward nonmonetary promotions will be higher when the promoted product is normally priced than when it is overpriced.

Methodology
Respondents in a 2 (normally priced vs. overpriced product) x 2 (monetary vs. nonmonetary incentive) between-subjects design experiment were exposed to a hypothetical sales promotion advertisement of a Kodak one-time-use color camera and then were asked to answer a questionnaire. Sale prices (either actual or inferred—by subtracting the value of the nonmonetary incentive from the regular price) for all four conditions were identical ($2). The Kodak brand was used to prevent inferences about low product quality that respondents may make based on a low sale price of the offer. To control for consumers’ preference heterogeneity in the nonmonetary condition, a free film processing coupon was chosen as a clear complement to the camera. Data were analyzed using MANOVA.

Major Findings
Contrary to the hypotheses, no significant interaction was found between the product price level and the form of incentive for both deal evaluations (p=0.603) and purchase intentions (p=0.863). Upon further investigation it was found that respondents did not significantly vary in their deal evaluations (p=0.502) and purchase intentions (p=0.296) across the two forms of incentives. The only significant main effect found was for the price of promoted product (p<0.001). Contrary to Urbany et al. (1988) overpriced condition did not improve evaluations of the deal and purchase intentions. When a product was overpriced, respondents’ evaluations of a deal and their purchase intentions were significantly lower than when it was normally priced.

One plausible explanation of those findings is based on consumers’ belief that a marketer’s goal is to make a profit. When a discount appears to be too high, consumers may engage in attributational processing to account for the behavior and may make some inferences about the quality of a product or the motive of a retailer (Friestad and Wright, 1994). With high offer prices consumers may completely switch their focus from product quality to retailer’s motivation and infer that the retailer wants to look good by stating inflated regular prices first and then offering bigger discounts. As people pay greater attention to disadvantages (Sen and Johnson, 1997) and negative stimuli get a greater weight in consumer decision making (negativity bias), sales promotions with overpriced products are likely to result in lower evaluations than those with normally priced products.

References


The Role of Meta-cognitive Experiences in Reason-based Choices for the Self vs. Others
Hyejeung Cho, University of Michigan
Christina Brown, University of Michigan

Extended Abstract

Prior studies have shown that people sometimes base judgments on the subjective meta-cognitive experience, for example, the ease or difficulty with which relevant information comes to mind (referred to as “ease-of-retrieval” by Schwarz et al., 1991). For instance, Wänke et al. (1997) have shown that consumers evaluate a BMW less favorably after generating ten reasons to choose a BMW over a Mercedes than with only one self-generated reason. Our research ultimately intends to look into three possible mechanisms for this “ease-of-reasoning” effect. The first two explanations have been offered by prior studies, but there seem to be mixed findings in the literature (see Haddock 2000 and Wänke & Bless 2000 for reviews).

Three possible mechanisms for the ease-of-reasoning effect

The first possible mechanism suggested by prior studies is the ‘availability heuristic’ based processing. This heuristic-based account suggests that people infer a scarcity of good reasons from the experienced difficulty of generating reasons. According to this explanation, people are more likely to rely on this ease effect under low-elaboration conditions than high-elaboration conditions. If this availability heuristic mechanism operates in the reason-based choice contexts, then the experienced difficulty of generating reasons should have a negative impact on the predicted choices of others as well as the choices made for the self only under low elaboration conditions (or at least the ease effects should be more pronounced under low, rather than high, elaboration conditions). The second possible mechanism involves the perceived validity (or quality) of reasons. According to this explanation, people are more likely to rely on the ease effect under high-elaboration conditions, because subjective difficulty of generating reasons undermines the perceived validity or compellingness of the reasons (Wänke & Bless 2000, Tormala et al. 2002). If this ‘reason validity’ mechanism operates, then the subjective difficulty of generating reasons should have a negative impact on the predicted choices of others as well as the choices for the self only under high elaboration conditions. In the current study, we suggest another possible explanation that the subjective experience of difficulty tells the person something about his/her preferences directly (i.e., “I can’t think of many good reasons, so this tells me something about my own preferences” rather than “I can’t think of many good reasons, so this tells me something about the reasons themselves”). In other words, the consumer may believe that it is inconsistency with his/her own preferences, rather than the validity of the reasons themselves, that makes reason-generation difficult. If this ‘preference diagnosticity’ mechanism operates, then one’s subjective difficulty of generating reasons should be limited to decisions made on one’s own behalf. We further argue that only under high-elaboration conditions people would be motivated and make a distinction between one’s own feelings and the feelings that others might be likely to have. Therefore, under high-elaboration conditions, when a person makes a choice for the self, the target option will more likely be chosen after only a couple of (vs. many) reasons are generated. On the other hand, when the person predicts others’ choices, the person would predict that the others will more likely choose the target option after many (vs. a couple of) reasons are generated, supposedly because the subjective difficulty of generating reasons is no longer diagnostic for others’ choices.

Experiment design

Allowing people to generate reasons then asking them to make choices on behalf of themselves or predict others’ choices will allow us to disentangle these mechanisms. Seventy-nine undergraduate students participated in our experiment with a 2 (reasons: 2 vs. 8 pro reasons) x (NFC: high vs. low) x 2 (choice type: self vs. others) mixed-design where ‘reasons’ and ‘NFC’ were treated as between-subjects factors and ‘choice type’ was treated as a within-subjects factor. Each participant generated either 2 or 8 reasons for choosing New York over Las Vegas as a vacation destination. NFC was measured using the 18-item scale (Cacioppo, Petty, and Kao 1984) and participants were divided into two groups based on a median split for data analysis. After reading a choice scenario and generating reasons, participants were asked which destination they would most likely choose and which destination they thought other students most likely choose (the two choice questions were given in a counter-balanced order). At the end, participants were asked how difficult it was to generate the 2 or 8 reasons (on a 7-point scale) for manipulation check.

Major findings

First of all, our manipulation check on the experienced difficulty of generating reasons revealed only a main effect of the number of reasons as expected: participants in the 8-reason condition reported that it was more difficult to generate the reasons than those in the 2-reason condition. Our analysis of the main data revealed a significant three-way within subjects interaction among ‘the number of