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Differential Impact of What is Available and What is Inferred: Promotional Element Salience Effect in Reference Price Promotions. Igor Makienko, Louisiana State University

Study represents an extension of the study by Urbany et al. (1988) on the effect of exaggerated and plausible reference prices. In addition to reference price level, the effect of the salience of different promotional elements (sale price and respective discount) on consumers’ deal perceptions and market price estimates is investigated. Results show that salience of promotional elements did not have any significant effect at the plausible reference price level. However, presenting a discount instead of a sale price in a high implausible reference price condition had detrimental effect on respondents’ deal perceptions and at the same time significantly enhanced retailer credibility.

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Non-consequential Reasoning in Hedonic and Utilitarian Consumption Decisions
Laura Smarandescu, University of South Carolina

This work investigates the effects of pursuing non-instrumental information on non-consequential reasoning in the context of hedonic and utilitarian product purchases. Individuals did not differ in their willingness to pursue non-instrumental information in the two purchase contexts; however, once they pursued the non-instrumental information they were more likely to rely on it in hedonic than in utilitarian purchase decisions. This research suggests that individuals feel more accountable for hedonic than for utilitarian purchases and thus, they are more likely to weight non-instrumental information to avoid feelings of guilt.

Is It the Luxury Car or the Super Model that Tempts Him?: The Possibility of Misattributed Arousal
Xiuping Li, University of Toronto

Research in consumer impulsivity has documented the effect of hedonic stimuli (e.g., dessert) on related behaviors (eating). We extend this line of research in the direction of whether the induced craving towards one hedonic stimulus category (dessert) can be carried over (or misattributed) to intertemporal choices in ostensibly unrelated behavioral domains (investing). In a series of experiments, we found that cues of hedonic stimuli (pictures or scents) led to (1) more choices of vices, (2) impatience in waiting for larger monetary gains, and (3) unplanned purchases.

Goal Abstraction Compatibility and Lexical Fit in Consumer Choice
Ryan Hamilton, Northwestern University

Objects can be described by either their concrete, feature-level attributes or by more abstract, benefit-level attributes. Likewise, a consumer may have a relatively more abstract or concrete mindset in approaching a decision. In a series of studies, we find that choice is a function of consumer mindset such that individuals with an abstract mindset tend to prefer products that dominate on abstract benefits and individuals with a concrete mindset tend to prefer products that dominate on concrete features.

Differential Impact of What is Available and What is Inferred: Promotional Element Salience Effect in Reference Price Promotions
Igor Makienko, Louisiana State University

Conceptual Background
In reference price promotions, consumers are usually exposed to a sale price and a reference price or to a reference price and a discount (we do not investigate situations with all three elements). Thus, savings are presented either directly, in the form of an explicit discount,
or indirectly, by stating the sale price along with the reference price. In the first case consumers infer the sale price. In the second case, they infer the size of discount. Though these two formats may represent economically identical deals, consumers’ evaluations are likely to vary depending on the salience of promotional elements.

Levin and Gaeth (1988) found that when ground beef was presented as ‘75% lean’, respondents displayed significantly better evaluations than when it was presented as ‘25% fat’. Evaluations were different despite the fact that information on the salient attribute automatically provided information about the absent attribute. Salient stimuli have a disproportionate influence on people’s judgments (Slovic, Fischhoff and Lichtenstein, 1982). Hence, the first research question is whether promotion format will have a differential impact on consumers’ deal evaluations and price estimates. Building on prior findings that consumers prefer to see their gains separately rather than integrated into a price of the product (Thaler, 1985; Diamond and Campbell, 1989), it is expected that consumers’ evaluations will be higher for discount present conditions than for sale price present conditions.

The second factor investigated in the study is reference price level. Extant research showed that reference prices have a significant impact on consumers’ buying behavior (Kalyanaram and Winer, 1995). For example, it was found that high implausible reference prices substantially increased perceived value of the offer despite decreasing believability of such claims (Urbany, Bearden and Weilbaker, 1988; Mobley et al., 1988). Urbany et al. (1988) suggest that consumers do not reject high implausible reference prices but instead discount them to the level deemed more reasonable. However, this reference price effect may only be true when a high implausible reference price is presented along with a sale price. Compeau and Grewal (1998) suggest that believability of reference prices is of little concern since consumers know that the retailer must sell the product at the advertised sale price. Presenting a discount instead of a sale price in advertisement may inhibit consumers’ abilities to estimate the actual sale price and may result in under- or overestimation of the sale price. Moreover, with a high implausible reference price the size of the discount should be large enough to make the sale price (inferred) attractive to consumers. Large discounts will also be perceived with skepticism (along with high implausible reference prices) and are also likely to be discounted to a more reasonable level (Gupta and Cooper, 1992). In this situation consumers may engage in a double discounting that may lead to deal evaluations lower than those in a ‘high implausible reference price and sale price’ format. Therefore, there may be preference reversal. At plausible levels of reference prices, consumers will have higher deal evaluations when a discount is present than when a sale price is present. However, at high implausible levels of reference prices, consumers will value sales promotions providing information about sale price significantly higher than those providing information about a discount.

Methodology

A 2 (plausible reference price vs. high implausible reference price) x 2 (discount is present vs. discount is absent) between-subjects design was employed to investigate how the level of reference price and the salience of promotional elements affect consumers’ deal perceptions. Respondents were exposed to a hypothetical advertisement of a Philips TV set and then were asked to answer a questionnaire. Manipulation checks were conducted to ensure that respondents remembered their treatment conditions and were significantly different in their perceptions of advertised reference prices. Data was analyzed by MANOVA.

Major Findings

A significant interaction between reference price level and salience of promotional elements (p=0.016) was found using MANOVA. Upon further investigation, it was found that the interaction was significant only for source credibility (p=0.031).

Results of the analysis partially support findings of Urbany et al. (1988). Respondents exposed to advertisement with high implausible reference prices had significantly higher attitude toward the deal (but not perceived value of the offer as in the original study), significantly higher market price estimates, and exhibited significantly lower believability toward claimed savings than those exposed to plausible reference prices. Quality perceptions of stimuli did not differ across groups. Main effect of the salience of promotional elements was significant. When advertisement contained reference price and sale price, respondents’ attitudes toward the deal and their perceived value of the deal were significantly higher than when advertisement contained reference price and discount. One interesting and unexpected finding refers to retailer (advertiser) credibility. While credibility of the advertiser was not different at the plausible reference price level, it was significantly higher for the discount present condition than for the discount absent condition at the high implausible reference price level, meaning that double discounting somehow improved the retailer credibility.

Contrary to the hypotheses salience of promotional elements did not have any effect at the plausible reference price level. However, in line with the hypotheses, presenting a discount instead of a sale price in a high implausible reference price condition resulted in significantly lower attitude toward the deal and perceived value of the offer. At high implausible reference price level, salient discount had detrimental effect on respondents’ deal perceptions and at the same time significantly enhanced retailer credibility.

References


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 marketers’ 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
