Placebo/Placui Effects of Marketing Actions: Consumers Get What They Pay/Paid For

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We examine time-dynamic effects of marketing actions on product performance. We find (1) placebo effects of current marketing actions, even after product experience, and (2) placui effects of prior marketing actions. Consumers not only get what they pay for, but also, what they paid for.

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Financial Incentives and Consumer Choice
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Paper #1: Consumer Reactance to Conditional Price Promotions
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Paper #2: Placebo/Placui Effects of Marketing Actions: Consumers Get What They Pay/Paid For
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Paper #3: Macroeconomic Threat Increases Preference for Mainstream Products
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SESSION OVERVIEW
The objective of this session is to highlight the differential effects of financial incentives on consumer behavior. The session is comprised of three papers that show the negative (Aydinli & Bertini), the time-dynamic (Van den Bergh & de Langhe), and the macro-economic (Finkelstein & Rios) effect of financial incentives.

Aydinli & Bertini show the boundary conditions of contingent price promotions by demonstrating that these promotions may provoke reactance when consumers perceive them as constraining their freedom. Van den Bergh & de Langhe examine the time-dynamic effects of price promotions and show that such promotions may lead to specific product efficacies. And finally, Finkelstein & Rios show that incentives in the form of a macro-economic threat that potentially restricts financial resources promotes domestic products over fair trade products.

The main contribution of the session is to demonstrate that a single marketing variable, in this case, financial incentives, can lead to different effects that range from positive to negative, and that vary across time, thereby affecting choice. The likely audience for this session are scholars who work on pricing, promotion, consumer choice, and behavioral decision-making. All three papers in this session have been completed and provide important implications for the design of financial incentives that may have repercussions beyond the realm of consumer behavior.

Consumer Reactance to Conditional Price Promotions

EXTENDED ABSTRACT
The marketplace is replete with promotional offers that are conditional on certain additional behaviours. Basically, the motivation of the firm is to have conditions on their promotions to ensure that certain behaviours take place in exchange for the discount. However, in this paper we point out that such conditional price promotions can sometimes backfire, resulting in more cautious decision-making by the consumer.

Building on reactance theory (Brehm 1966) and adding to the growing literature on reactance within consumer contexts (e.g. Fitzsimons 2000; Fitzsimons and Lehmann 2004; Kivetz 2005) as well as to the recent interest in the broader affective and cognitive implications of price promotions (Aydinli and Bertini 2012; Chandon et al. 2000), we propose that consumers may perceive conditional promotions as intended to influence their purchase behaviour, thereby constraining their freedom and self-determination. In order to reassert their freedom, consumers may act more cautiously in terms of their product choices through selection of cheaper and fewer options than they otherwise would.

Consistent with our hypothesis, we found that compared to unconditional promotions, conditional promotions reduce consumers’ overall spending with the firm as they shift consumer preferences towards cheaper and fewer options as well as lower their commitment with the firm. Further, the results of our experiments underscore the role of reactance in this process.

In Experiment 1, the participants were asked to choose among three types of rental options that were differently priced based on the features of the available cars. They were also asked to select several additional products and services that were charged separately from the rental fee. The experiment employed a single factor (no promotion vs. unconditional promotion vs. conditional promotion) between subjects design. The conditional promotion had the sentence “…conditional on the person picking up the car from the branch of the company at the central train station” added to the description in the unconditional promotion condition. Consistent with our hypothesis, we found that participants’ total spending was lower in the conditional promotion than in the unconditional promotion (p < .01) and in the no promotion condition (p < .05). Participants in the conditional promotion preferred cheaper rental options and were willing to spend less on additional services than participants in the unconditional promotion (p < .01 and p < .04, respectively). Importantly, participants evaluated the two types of promotional offers as equally attractive, ruling out a value-based response (F < 1).

In Experiment 2, we looked for evidence for the role of reactance in driving the observed effects. Prior research suggests that reactance is less likely to occur when the restriction of freedom is justifiable or legitimate (Brehm 1966). Thus, we predicted that the conditional promotion would arouse less reactance if the firm’s behaviour is perceived as legitimate, mitigating consumers’ cautious behaviour. The type of conditional promotion we used was a channel discount. Participants were randomly assigned to the no promotion, high reactance promotion, or low reactance promotion conditions in the context of purchasing a cable TV and Internet service. Participants in the high reactance promotion condition were told that the firm was offering a discount for using an online channel to sign up for the service. In contrast, participants in the low reactance promotion condition were told that the firm was offering the discount for using an online channel because Internet subscriptions were cheaper to process, which in turn allowed them to share the savings with customers. Participants were asked to choose between two TV packages (Base Pack, Max Pack) and among three Internet connection speed (2MB, 4MB, Max Speed). They were also asked if they would add a separately charged telephone service to their chosen bundle. As expected, in the high reactance promotion condition participants’ overall expenditure was lower than in the low reactance promotion condition (p < .01) and in the no promotion condition (p < .05). As such, the former preferred more basic TV packages with lower speed of Internet and were less likely to add a telephone service to their chosen bundle.

Due to difficulties in measuring situational reactance, in Experiment 3, we used a trait-level measure to provide evidence of a reactance process. We examined whether our effects are stronger among individuals who are more likely to experience reactance. We predicted that the conditional promotions would induce cautious decision making more among high reactance (vs. low reactance) consumers.
The experiment utilized a 2 (Promotion: unconditional vs. conditional) \times 2 (Trait Reactance) mixed design. Participants were asked to choose among three differently priced gym membership options as well as three different contract terms available for membership. They also indicated the additional services they were most likely to purchase during their membership. The conditional promotion was framed as a referral discount with the sentence “…conditional on the new customer joining with a second person” added to the discount offer description in the unconditional promotion condition. As predicted, high reactance participants were willing to spend less on membership and additional services when the gym offered a conditional promotion than when no condition was attached to the promotion \((p < .01)\). However, there was no corresponding effect among low reactance participants \((p = .73)\).

Overall we demonstrate that promotions that are conditional on certain additional behaviours can sometimes backfire. Our findings delineate the situational and dispositional conditions under which conditional promotions are and are not effective, while also shedding light on the mechanism behind our effects. As such, we provide an important counterpoint to the notion that consumers respond favourably to economic incentives.

**Placebo/Placui Effects Of Marketing Actions:**

**Consumers Get What They Pay/Paid For**

**EXTENDED ABSTRACT**

Marketing actions can produce placebo effects. For instance, the efficacy of a product may decrease when the price of a product is lowered (Shiv, Carmon, and Ariely 2005). The placebo effect results from consumers’ reliance on marketing activities to form expectations about product quality (e.g., “you get what you pay for”). However, when consumers learn about product efficacy through first-hand experience, the relative reliance on extrinsic aspects to evaluate product quality may decrease in favor of using intrinsic cues (Levin and Gaeth 1988; Rao and Monroe 1988). In the present research, we investigate whether consumers continue to rely on information extracted from marketer controlled sources after product experience. In addition, we investigate to what extent the placebo effect persists over time. As the placebo effect is largely unconscious (Shiv et al. 2005), (un)favorable product experiences may unknowingly sustain expectations in subsequent product experiences. Current price promotions could therefore affect product efficacy at future consumption episodes. In two ‘longitudinal’ experiments, we address the role of product experience in the placebo effect and investigate whether the placebo effect is a transient or persistent phenomenon.

In the first experiment, individuals’ mental performance was tested after consuming a cup of coffee from an unknown brand. Consistent with the placebo effect (Shiv et al. 2005), individuals who consumed regularly priced coffee \(\$2\), high price condition) found more words in a word search puzzle than individuals who consumed the same coffee at a price discount \(\$0.9\), low price condition). Two weeks later, these same individuals consumed the same coffee as before and were again randomly assigned to a high \(\$2\) and a low \(\$0.9\) price condition, yielding 4 conditions \((price_{\text{low}} \times price_{\text{high}})\): high vs. low \(\times price_{\text{low}}\); high vs. low \(\times price_{\text{high}}\). Those in the “high &low,” condition were told that “the product is now on sale”, whereas those in the “low &high,” condition were told that “the price promotion ended.” Participants in the “high &high,” and “low &low,” conditions were told that the price was the same as before. Individuals who consumed high priced coffee at time2 found more words in the word search puzzle than individuals who consumed low priced coffee at time2. Current marketing activities seem therefore capable of producing tenacious placebo effects (“you still get what you pay for”). Even after product experience, individuals continue to use an extrinsic cue as a signal for product quality. Interestingly, the price of time1 exerted a significant influence on the performance at time2: Participants who consumed high priced coffee two weeks earlier performed better at time2 than participants who consumed low priced coffee two weeks earlier. We refer to this phenomenon as a placui effect of marketing actions (Latin for “I have pleased” rather than placebo, Latin for “I shall please”): Prior marketing activities affect current product efficacy.

In the second experiment, we aimed to uncover the mechanism behind the placui effect. Individuals’ mental performance was tested after consuming an energy drink with a high price, low price or “for free”. Consistent with the placebo effect, individuals who consumed a regularly priced energy drink \(\$2\), high price condition) found more words in a word search puzzle than individuals who consumed the energy drink at a price discount \(\$0.69\), low price condition). Importantly, individuals who believed that “the university received the energy drink in bulk as free samples” \(\$0\), zero price condition) performed better than individuals in the low price condition and not significantly different from those in the high price condition \((performance_{t1} \geq zero_{t1} > low_{t1})\). This suggests that not all price promotions instigate placebo effects. One week later, the same participants consumed the same energy drink as before, after being randomly assigned to the high \(\$2\) or low \(\$0.69\) price condition, yielding 6 conditions \((price_{t1} \times price_{t2})\): high vs. low vs. zero \(\times price_{t2}\); high vs. low \(\times price_{t2}\). Replicating experiment 1, individuals who consumed a high priced energy drink at time2 found more words in the word search puzzle than participants who consumed a low priced energy drink at time2 \((performance_{t2} = .73)\). The tenacious placebo effect suggests that current marketing actions as well as prior product experience. The price at time1 also exerted a significant influence on the performance at time2 \((performance_{t2} \approx zero_{t2} > low_{t2})\). That is, prior marketing (i.e., price discounts), not prior performance, instigates the placui effect.

Across experiments, we obtain evidence for three variations on the placebo effect: 1) a regular placebo effect \((the\ effect\ of price_{t1} on performance_{t2})\); 2) a tenacious placebo effect \((the\ effect\ of price_{t2} on performance_{t2})\); and 3) a placui effect \((the\ effect\ of price_{t1} on performance_{t2})\). The tenacious placebo effect suggests that current marketing activities may at times overrule expectations based on prior experience. The placui effect suggests that product performance is not only affected by current marketing actions, but by prior marketing activities as well. Therefore, we can conclude that consumers not only get what they pay for (placebo effect), but also that they get what they paid for (placeui effect).

**Macroeconomic Threat Increases Preference for Mainstream Products**

**EXTENDED ABSTRACT**

Previous research has explored the role of individual differences in consumer ethnocentrism (Shimp & Sharma, 1987; Shimp et al., 1995; Watson & Wright, 2000) and sensitivity to value-based claims.
Advances in Consumer Research (Volume 40) to explain preferences for mainstream and fair trade options, respectively. In the present research, we examine the role of intergroup threat in people’s preferences for mainstream relative to fair trade products. Intergroup threat can take several different forms (for reviews, see Rick, Mania, & Gaertner, 2006; Stephan, Ybarra, & Morrison, 2009). These forms include realistic threats to a group’s power, material resources, and safety (Maddux, Cuddy, Galinsky, & Polifroni, 2008; Morrison & Ybarra, 2008), symbolic threats to a group’s values and way of life (Morrison & Ybarra, 2009; Pereira, Vala, & Leyens, 2009), and social identity threats to a group’s reputation (Ellemers, Spears, & Doosje, 2002) or morality (Cameron, Duck, Terry, & Lalonde, 2005). Here, we focus on a particular form of realistic threat that we refer to as macroeconomic threat – threat to a group’s economic position and resources. We do so because macroeconomic threat is especially relevant to evaluations of material goods and products. Broadly speaking, macroeconomic threat is an important contextual variable to study because the state of the economy is constantly in flux. As such, understanding how consumer’s attitudes, preferences, and behaviors shift as a function of changing economic times is crucial.

Under conditions of realistic threat, desirable material resources are seen as scarce, and people will take steps to assert the power and status of their own group over other groups (Levine & Campbell, 1972). Recent research has begun to investigate the specific effects of macroeconomic threat. This research attests that macroeconomic threat activates attempts to restore and maintain the ingroup’s equality relative to outgroups (Butz & Yogeesswaran, 2011).

Although realistic (e.g., macroeconomic) threat has been shown to increase intergroup biases like prejudice, much less is known about other effects of such threat. In the context of macroeconomic threat, one possible effect could be differential evaluations of material resources that benefit the ingroup versus outgroups. Specifically, a threat to the macroeconomic climate may lead people to choose products that are made domestically and cater to the masses (“mainstream products”) over products that are made internationally and promote global social justice (“fair trade products”). This preference for domestic products would reflect a desire to safeguard the national economy against threat.

We conducted two studies to test the role of macroeconomic threat in preferences for mainstream and fair trade products. To explore the unique impact of macro-economic threat on preferences for mainstream products, we compared participants who read an article about the instability of the current macroeconomic climate to those who read a threatening article not related to the economy (i.e., an article about global warming) and those who read a neutral article (see Butz & Yogeesswaran, 2011 for this manipulation of macro-economic threat). Next, participants evaluated a series of mainstream and fair trade products (e.g., Tazo Tea versus Zhena’s Gypsy Tea). The mainstream and fair-trade products were pre-tested to ensure that they were equally desirable and attractive to our subject population with the only difference being how common/mainstream the products were viewed by our subject population. We predicted and found that compared to those who read the neutral article (control condition) or those who read the threatening article about the environment (non-macroeconomic threat condition), those who read about a threatening macroeconomic climate evaluated mainstream products more favorably. Importantly, this effect was not driven by differences in affect after reading the threatening articles. Interestingly, participants’ evaluations of fair trade products did not shift as a function of which article they read (macroeconomic threat vs. environmental threat vs. control), possibly because participants might have experienced social desirability concerns that prevented them from derogating products that are marketed in such an inclusive way. In study 2, we had participants choose between earning a mainstream or fair-trade product for compensation. By having participants choose which product they would like, versus evaluating both products, we attempted to alleviate social desirability concerns.

In study 2, participants read an essay about either the instability of the macroeconomic climate or a control topic, prior to choosing a product as compensation for taking place in the study. As compensation, participants chose between earning a $10 gift certificate for Hickory Farms (mainstream option) or Global Exchange (fair-trade option). Pre-testing indicated both gift certificates were equally desirable and that consumers inferred they could get a similar value for their money at both websites; the only difference was that one option (Hickory Farms) was perceived to be a more mainstream brand than the fair-trade option (Global Exchange). After indicating which product they wanted to consume, participants completed the Social Dominance Orientation (SDO; Pratto et al., 1994) scale as a measure of their support for inequality and hierarchy in society. We found that macroeconomic threat increased consumers’ preferences for mainstream products. We also predicted that this effect was strongest among people high in SDO, who are especially sensitive and responsive to threats to their group’s position.

Two studies demonstrate that perceived macro-economic threat impacts preferences for mainstream options. Specifically, those who feel their economic livelihood is threatened shift towards preferring mainstream options. These studies have implications for marketers of mainstream (fair trade) products, who could heighten (decrease) consumers’ sense of economic instability to boost sales of their products.

CONCLUSION

This session will further the conference’s mission of appreciating diversity by providing a forum that discusses how a single marketing variable, in this case, financial incentives, can lead to entirely different effects that range from positive to negative, and that vary across time, thereby affecting choice.