Double Mental Discounting: How a Single Promotional Rebate Feels Twice As Nice

Andong Cheng, Pennsylvania State University, USA
Cynthia Cryder, Washington University, USA

When receiving a promotional rebate, consumers “double discount” that rebate, mentally posting the rebate rewards to both the Time 1 purchase when they received the rebate and the Time 2 purchase when they use the rebate. Ease of payment coupling plays a key role in double discounting.

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/1020200/volumes/v43/NA-43

[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.copyight.com/.
Double Mental Discounting: How a Single Promotional Rebate Feels Twice as Nice
Andong Cheng, Pennsylvania State University, USA
Cynthia Cryder, Washington University, USA

EXTENDED ABSTRACT
Our research identifies the tendency for consumers to feel as if they spend less money than in reality when they use promotional rebates. We define promotional rebate as a promotion where Purchase 1 (at Time 1) comes with credit to apply towards Purchase 2 (at Time 2). We find that when consumers receive a promotional rebate, they erroneously mentally apply the rebate amount to reduce costs of both Purchase 1 and Purchase 2. We name this phenomenon “double discounting”. We believe double discounting occurs because Purchase 1 and Purchase 2 both feel coupled with the rebate gains.

We hypothesize that a promotional rebate may feel coupled with Purchase 1 because a consumer incurs the cost of Purchase 1 and receives the rebate tender at the same time. As a result, consumers may believe that Purchase 1 subjectively feels cheaper to purchase than its listed, objective price. Purchase 2 might also may feel coupled with the rebate because the value of the rebate is actually applied to deduct the cost of Purchase 2. Purchase 2 therefore also can feel cheaper than its listed, objective price.

We explore the double discounting effect in a series of four studies. S1 establishes the basic effect. S2 demonstrates that the effect is exacerbated when consumers treat rebates like windfall gains. S3 shows that double discounting can be mitigated upon deliberation of which account the rebate belongs to. S4 demonstrates one consequence of double discounting on choice.

Study 1. We demonstrate the basic effect of double discounting in S1. Undergraduate participants from a large northeastern university were randomly assigned to either the “rebate condition” or “discount condition”. We informed the rebate (discount) condition at Purchase 1 that they will receive a $150 gift card to spend on Purchase 2 (they will get a $150 discount off Purchase 1) upon buying Purchase 1. The listed price of Purchase 1 was $500 and the listed price of Purchase 2 was $300. There was a main effect of promotion type on subjective costs where the rebate condition thought the sum of Purchase 1 and Purchase 2 costs felt lower (M=$584.53) than the discount condition (M=$655.02; F(1,98)=20.54, p<.001). In other words, the rebate (vs. discount) condition reduced the total cost of the two purchases by $215.47 (vs. $144.98), an amount statistically higher than the rebate’s $150 objective worth; t(50)=4.97, p<.001. Study 1 shows that a promotional rebate reduces the subjective cost across two purchases to a greater extent than a direct discount of the same value applied to one of the two purchases.

Study 2. Upon showing the basic effect of double discounting, we hypothesize that framing rebate gains as windfalls would exacerbate double discounting effects because windfall gains are unlabeled and flexible to assign to any account (Thaler 1980; 1985). Mechanical Turk participants were randomly assigned to one of three conditions. The discount condition received $150 off Purchase 1. The rebate condition received a $150 voucher for a future purchase upon buying Purchase 1. The windfall condition received a $150 voucher for a future purchase as an unrelated event that occurs simultaneously with Purchase 1. While each condition should have rationally deducted a total of $150 from the costs of Purchase 1 and Purchase 2, we found that the discount condition deducted a mean of $147.28, the rebate condition deducted a mean of $198.41, and the windfall condition deducted a mean of $238.30; F(2, 112)=11.14, p<.001. Further contrast effects showed that the rebate condition deducted more than the discount condition (t(112)=2.60, p=.01) but less than the windfall condition (t(112)=2.05, p<.05). Participants in the rebate condition deducted more value (M=$198.41) across the two purchases than the rebate amount was objectively worth ($150); t(36)=2.99, p<.01. This over-discounting effect was exacerbated in the windfall condition (M=$238.30).

Study 3. In S2, we showed that rebates framed as windfalls exacerbated double discounting effects. In S3, we aimed to mitigate double discounting effects through decoupling rebate gains from Purchase 1. We predict that decoupling will occur when consumers are prompted to deliberate what they will spend their rebates rewards on. Mturk participants were assigned to a discount vs rebate vs think condition. The think condition received a promotional rebate at Purchase 1 but were prompted to think about what they would buy with the rebate before assessing Purchase 1’s subjective cost. There was a main effect of promotion type how much money participants subjectively deducted from the cost of Purchase 1 (F(2, 116)=8.50, p<.001). Participants in the think condition deducted less off Purchase 1 (M=$50.68) than participants in the rebate condition (M=$119.44; F(1, 118)=6.81, p<.01) and discount condition (M=$198.87; F(1, 118) = 9.09, p<.01). The results suggest that thinking about using the promotional rebate on Purchase 2 helps decouple the rebate from Purchase 1, thus also reducing the double discounting error.

Study 4. S4 aims to demonstrate whether offering a promotional rebate with Purchase 1 can encourage consumers to choose a more expensive product at Purchase 2 when participants are given a continuum of choices for Purchase 2 (low price/low quality to high price/high quality). We find that participants who received a promotional rebate with Purchase 1 chose to spend more money on Purchase 2 (M=$24.94) than participants who received the same value discount off Purchase 1 (M=20.09; F(1, 328)=34.69, p<.001). We find that as participants double discount subjective costs, they also tempt themselves into spending more money.

Discussion. We identify a mental accounting phenomenon that occurs when consumers use promotional rebates. In four studies, we demonstrate the basic phenomenon, how it can be strengthened and weakened, and how it impacts choice. Framing a rebate as a windfall allows the rebate to feel more easily coupled with both Purchase 1 and Purchase 2. Reminding consumers to think about how the rebate will be spent in the future decouples the rebate from the present purchase. Finally, because double discounting decreases subjective cost of purchases, the phenomenon also encourages upgrades to pricier options.

REFERENCES


