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Sales framing, mental accounting, and discount assignments

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ABSTRACT

This investigation explores the effect of sales framing on the attractiveness of mixed promotions. The authors propose that the "focused-discount" promotion format (e.g., 50% off the purchase of a second item) is more attractive to consumers than the "all-discount" promotion format (e.g., 25% off the purchase of two items) due to the effect that different frames have on the mental accounting processes of consumers. In Experiments 1 and 2, participants confronted by focused-discount (vs. all-discount) promotion assigned a relatively higher discount value to the final product and perceived greater savings. In Experiment 3, priming participants to focus on the first item reduced this framing effect of mixed promotions. The results show that participants perceived greater savings in a focused-discount framing (vs. all-discount) due to the differences in how discounts were assigned for each item. Finally, this paper suggests that companies may frame promotions to increase their relative attractiveness to consumers.

1. Introduction

Marketing managers often use promotions to enhance the purchasing intentions of consumers. These promotions may focus on changing the price of target items (e.g., discounts, coupons), offering extra product (e.g., freebies), increasing the volume of target items (e.g., buy one get one free, bonus pack), or pursuing a mixed promotion (e.g., buy two, get 25% off; Chen, Monroe, & Lou, 1998; Diamond, 1992; Sinha & Smith, 2000). Previous research has shown that the frames used in sales promotions influence the value perceptions of consumers and purchasing intention (Barnes, 1975; Chen et al., 1998; Diamond, 1992; Diamond & Sanyal, 1990; Hardesty & Bearden, 2003; Lowe, 2010; Palazon & Delgado-Ballester, 2009; Sinha & Smith, 2000; Yi & Yoo, 2011). Several authors have also addressed the difference between monetary (e.g., discounts) and nonmonetary (e.g., extra products) promotions and compared the relative attractiveness of different types of promotions (Diamond, 1992; Diamond & Sanyal, 1990; Hardesty & Bearden, 2003; Sinha & Smith, 2000; Yi & Yoo, 2011). However, few studies have explored the effects of framing within the mixed promotion approach or the relative attractiveness of these promotions (e.g., Diamond & Sanyal, 1990; Sinha & Smith, 2000).

Mental accounting theory holds that individual consumers and households track their financial activities in a manner similar to enterprises (Thaler, 1985, 1999). Therefore, consumers and households assign financial events to specific accounts and categorize or label them by expenditures and sources. However, different people may categorize particular financial events differently (Shafir & Thaler, 2006; Soman & Gourville, 2001). This paper proposes that how a mixed promotion is framed influences the accounting processes and discount assignments of target consumers. We consider two framing types: an all-discount framing such as "buy N, get x% off" and a focused-discount framing, which draws attention to the last element, as in "buy a second item for y% off."

The feature-matching model (Tversky, 1977) suggests that individuals map the features of a subject onto the features of the referent/target as a starting point for comparison when comparing two objects. Houston, Sherman, and Baker (1989) further suggest that when making preference judgments between two items, individuals tend to use the last item as the subject because the comparison process does not start until the second object appears. Therefore, the features of the last object provide the starting point of the comparison process and are weighted more heavily.

In mental accounting, the use of different semantic cues to frame the sales promotion (e.g., "buy two, get 25% off" versus "buy a

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second item for 50% off") is known to affect how consumers assign discounts to each item, even when the ultimate cost of these items or value of the discounts is the same. Moreover, people tend to assign greater importance on the last (or immediately preceding) item when considering mixed promotions because this item acts as the subject of the comparison. Conversely, the original price represents a referent (Tversky, 1977) that consumers use as a comparison against the last item in a mixed promotion, which is most salient. Therefore, a focused discount promotion may be presumed to be more attractive than an all-discount promotion because the last item in the former frame appears to offer a greater discount. This paper conducts three experiments to confirm these predictions. This study offers several contributions to the existing literature: (1) a new and more comprehensive perspective for explaining the relative attractiveness of a mixed promotion across different framings is suggested; (2) the differences in mental accounting processes and discount assignments between the two framings are explored; (3) the moderating influence of focus priming on the relative attractiveness of different frames is demonstrated; and (4) key implications for practice and avenues for further research are introduced.

2. Theoretical background

2.1. Framing effect of promotions

Retailers often vary the amount and level of discounting and the way in which promotions are framed in order to influence consumer perceptions of transaction value and purchase intentions. Previous research confirms that how alternatives are framed influences the relative preference judgments and choices of consumers (Kahneman & Tversky, 1979; Sinha & Smith, 2000).

This framing effect is well demonstrated in research into marketing promotions. For example, Barnes (1975) found that, when faced with the three price promotion formats of "special - $75"; "25% off - $75"; and "regular price $100, sale price $75", consumers responded most positively to the latter version. Furthermore, Chen et al. (1998) demonstrated that a price promotion framed as a dollar reduction is more attractive in the context of high-price products, whereas one framed as a percentage reduction is more attractive for low-price products. Some researchers have employed assimilation-contrast theory (Gabor & Granger, 1964; Kalyanaram & Winer, 1995; Monroe, 1971) and Weber's law (Harlam, Krishna, Lehmann, & Mela, 1995) to explain the effect of price framing. According to the assimilation-contrast theory, there is a price range that is internal to consumers, known as latitude of acceptance, which defines the range of acceptable prices. A reduced price that is within a consumer's latitude of acceptance is assimilated into the acceptable range and becomes acceptable. A reduced price that is outside the latitude of acceptable will be contrasted with the acceptable range and becomes noticeable. This concept relates closely to Weber's law (Monroe, 1971). Weber's law suggests that the difference threshold (or "just noticeable difference"), which describes the minimum difference in a stimulus that is detectible by an individual. A larger change in price is more likely to be detected or perceived by consumers. Thus, the focus-discount frame (e.g., "get the second one 50% off") is more noticeable than the all-discount frame (e.g., "buy two, get 25% off.") and more likely to raise purchase intention (Harlam et al., 1995).

In contrast, other authors have turned to the silver lining principle of mental accounting theory. Based in the prospect theory, the silver lining principle proposes that utility functions are concave for gains and convex for losses and that the curve for losses is steeper than that for gains. When consumers confront a small gain (e.g., price discount) relative to a large loss (e.g., purchasing cost), they prefer to separate them psychologically into two different accounts rather than integrate them. Diamond and Campbell (1989) and Diamond and Sanyal (1990) also proposed that nonmonetary promotions (e.g., freebies, "buy one, get one free") appear segregated from the purchasing cost and framed as gains because the units for the promotions differ from the price (i.e., money). In contrast, monetary promotions (e.g., price discounts) should be integrated into the purchasing cost and framed as reduced losses because the units are the same, which facilitates their integration. Consumers then have a preference for extra-product or volume promotions over price discounts, assuming that the size of the promotion is small relative to the purchase cost. Sinha and Smith (2000) and Smith and Sinha (2000) show that consumers prefer stores that offer extra-product promotions (e.g., buy one, get one free) to stores offering mixed promotions (e.g., buy two, get 50% off), especially if the products being offered may be hoarded. However, the silver lining principle also requires that the amount of the gain should be relatively small compared with the losses. In Sinha and Smith's studies, the percentage of discount relative to the cost may be too large (50%). Further adding to the confusion, it seems that, in comparison with assimilation-contrast theory and Weber's law, the silver lining principle suggests that a different discount level is necessary to exert the framing effects.

We propose another explanation for the variation in attractiveness of mixed promotions across different frames: Promotion frames may influence consumers' mental accounting processes and assignments of discounts to each product item such that their perceptions of their savings differ for each product item in the various framing conditions.

2.2. Mental accounting

Mental accounting is a cognitive rule that consumers use to organize, evaluate, and record financial activities. Consumers keep track of their financial activities, with accounting rules influencing their financial decisions explicitly and implicitly. Mental accounting assumes that people value a single event in multiple ways because they have the flexibility to categorize. For example, Shafir and Thaler (2006) proposed that individuals may evaluate a transaction in multiple ways if the time of consumption is different than the time of purchase. An example of this is when theatergoers purchase tickets months in advance of a performance. People tend to regard their early purchases as an investment rather than an expenditure, and then by the time they consume the item, they have forgotten the price, so the product seems free or a savings (e.g., spending $20 for a bottle of wine that appreciates over time). If they lose a previously purchased product (e.g., breaking the bottle of wine), the replacement costs appear more salient.

Soman and Gourville (2001) demonstrated that consumers may flexibly assign the cost across each item when the connection between costs and benefits is ambiguous, as with price bundling (e.g., $1000 for a travel package that includes transportation, hotel, and food). Similarly, Prelec and Loewenstein (1998) found that paying with a credit card (versus cash) diminishes the salience of the payments and reduces the connection between costs and benefits.

Together, these studies show that the characteristics of a transaction affect how consumers assign the cost of that transaction. If the discount assigned to each product item varies across the frames used, does the specific classification influence consumers' perceptions of savings? The frames of a mixed promotion (all-discount versus focused-discount) may cause consumers to assign discounts to items in varying ways, and the relative attractiveness of the different frames may depend on the focus that consumers put on the last item.