



When less is better than more: Just-below discount in tensile price promotions



Prantosh J. Banerjee¹, Sanjeev Tripathi^{*1}, Arvind Sahay¹

Department of Marketing, Indian Institute of Management, Ahmedabad, India

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ABSTRACT

Retailers often use Tensile Price Claims (TPC) such as “upto 40% off” or “from 10% to 40% off” to promote a line of merchandise. This enables them to have a salient communication while allowing specific level of discount on particular items. Recently, retailers have started using just-below TPC frames such as “upto 39% off”. This research explores the influence of TPC framed with “just-below” numbers on consumers’ perceived benefits through three studies. The results indicate that just-below temporal frames have a more favorable impact on consumer perceptions than round frames; this is contrary to left digit salience heuristic but is in line with anchoring and adjustment theory. The effect of just-below framing disappears both for deep discount levels and with sequential TPC discounts. This study has important managerial implications for the use of TPC as a promotional tool. The study also contributes to theory in multiple ways.

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“Minimum 10% off to 39% off” Pennydeals.in²

“10% to 49% off” mytokri.com³

“Upto 69% off” Bright European Skin Care Salon at New York & Company⁴

“Upto 59% Off + additional 10% off” Official deals⁵

“Upto 79% off +20% off” Dealnews.com⁶

1. Introduction

With modern day pricing challenges, retailers/manufacturers are increasingly focusing on state-of-the-art pricing strategies that have their roots in behavioral economics and psychology (Ahmetoglu et al.,

2014). Retail advertisers frequently make price claims that offer varying levels of savings such as those seen above. For the discounts shown above, three aspects are particularly noticeable. First, these discounts offer varying level of discounts and are typically referred to as Tensile Price Claims (Mobley et al., 1988). Such discounts reduce information value and inject ambiguity into the decision-making context (Camerer and Weber, 1992; Dhar et al., 1999). Second, the upper bounds can be framed as round numbers (multiple of 5 or 10) or they may use a “just-below” discount framing where the maximum discount level is just-below a round number. The examples cited above indicate that the just-below framing of the upper bound of TPC promotions is becoming increasingly popular. Thirdly, some of the TPC price claims are in combination with another fixed discount, such a combination of two consecutive discounts are referred to as sequential discounts (Chen and Rao, 2007).

For a retailer it is important to identify TPC frames that will have a more favorable impact on consumer's perception of savings, their value perceptions and intention to shop at the store (Biswas and Burton, 1993). The research on TPCs has primarily focused on the impact on consumer perceptions of various boundaries of TPCs such as the lower bounds (i.e. “at least x% off”), upper bounds (i.e. “upto y% off”), and both boundaries (i.e. “x% to y% off”) (Biswas and Burton, 1993, 1994; Mobley et al., 1988). Though just-below tensile frames are becoming popular with retailers, these have not been studied in the pricing or retailing literature.

In the extant literature on TPC, the boundaries are typically framed in round numbers as multiples of 5 or 10. For example, Mobley et al. (1988) used 25% and 50%, while Biswas and Burton

* Corresponding author.

E-mail addresses: prantoshb@iima.ac.in (P.J. Banerjee), sanjeev@iima.ac.in (S. Tripathi), asahay@iima.ac.in (A. Sahay).

¹ Each author contributed equally to this work.

² Source: http://www.pennydeals.in/main.php?rto=dabur-health-amp-personal-care-minimum-10-off-to-39-off-from-rs-34_beac9dbabe87d107a946a30dd6e82c6b accessed on 9th February 2016.

³ Source: <http://www.mytokri.com/sexual-wellness-products-10-to-49-off.31110/> accessed on 9th February 2016.

⁴ Source: <https://www.linkedin.com/pulse/up-69-off-deal-day-nyc-midtown-bright-skin-care-salon-and-spa-6060954940459745280> accessed on 9th February 2016.

⁵ Source: <http://official.deals/industrybuying-coupons/?coupon-id=224081> accessed on 9th February 2016.

⁶ Source: <http://dealnews.com/Curtains-at-Designer-Living-Up-to-79-off-20-off-free-shipping/1579261.html> accessed on 9th February 2016.

(1993) used ranges such as 10–40%, 5–45%, and 20–30%. The real life examples cited earlier illustrate that use of “just-below” numbers in TPCs is becoming popular. Interestingly, there is sizeable work in odd-pricing literature, which suggests that just as just-below pricing leads to an underestimation of prices (Thomas and Morwitz, 2005). This literature suggests that it is likely that just-below discount framing could, analogously result in underestimation of discounts.

However, the use of just-below TPC promotions suggests that there is probably some merit in its use as a promotional strategy. The theory on anchoring and adjustment (Slovic and Lichtenstein, 1971; Tversky and Kahneman, 1974) has been applied in TPC literature to explain how consumers anchor on the boundaries of TPC and then adjust from these anchors. Recent contributions by Janiszewski and Uy (2008) suggest that round anchors lead to larger adjustments whereas precise anchors (non-round) result in smaller adjustments from the anchor. Applied to TPC promotions, this suggests that just-below discount frames should perform better as they result in lower adjustment from the anchor as compared to round numbers. Essentially, there seem to be two different theories, left digit salience and anchoring and adjustment that predict opposite effects on consumer perceptions for such framing of TPC. The extant research on TPC has not examined this issue and it is unclear whether retailers are following the right strategy by adopting just-below TPC promotions rather than round TPC promotions.

As such, this study seeks to investigate.

- Which of the two framings (round and just-below framing) for a TPC promotion results in a more favorable consumer perceptions towards the retailer?
- What are the boundary conditions for such an effect?

The key contribution of this study is that while the prior literature has focused on round frame for the discounts, we investigate just-below tensile discounts. While the difference may appear to be trivial, it is important in terms of its implications for retailers. From a theoretical perspective, this study aims to contribute by resolving which of the two theories, that of left digit salience or anchoring and adjustment are applicable in just-below TPC frames. Further, this study also explores some of the boundary conditions of the effect of just-below TPC promotions and examines these at different depths and as sequential discounts. Hence, the objective of this article is to investigate and compare the impact of just-below and round discount frames in TPCs on consumers' perceptions related to the discount. Specifically, we examine the effect of just-below discount frames on upper bound of TPCs, as this is a popular practice and upper bound of a TPC seem to have a larger impact on consumer's perceptions than lower bound of a TPC (Biswas and Burton, 1993).

The rest of the article is structured as follows. First, we present a review of the literature on TPCs and just-below pricing, followed by three studies. In Study 1, we demonstrate that consumers' expected discounts, and their perceptions about savings and the deal, are higher for tensile claims with just-below frames than with round frames. Next, in study 2, we establish that this effect is not because of consumers' perceptions about the precision of the anchor; rather this is due to finer adjustments resulting from the nature of anchor. We also show that the potency of just-below discount frames disappear at high discount depths. Subsequently, in study 3, we demonstrate another boundary condition for this effect and show that the effect of anchoring and adjustment disappears when consumers encounter sequential discounts that require complex calculations. Finally, we present a discussion on key findings and conclude with limitations and managerial implications of the study.

2. Review of literature

2.1. Tensile price claims

A tensile price claim is a claim with a factual foundation, but which uses vague wording that introduces a certain amount of ambiguity, thereby reducing the specificity and usefulness of the information provided (Mobley et al., 1988). Tensile price advertisements are particularly useful when the retailer offers variable level of price discounts across a product line (Licata et al., 1998). Such advertisements are very popular and have been observed to constitute almost one third of news paper advertisements (Friedmann and Haynes, 1991). In the context of sale advertisements, a TPC is a combination of two elements – semantic cue (e.g. “save upto”) and focal information that specifies the actual magnitude of discount/savings. The nature of semantic cue used with focal information makes a claim ambiguous and less informative for consumers (Biswas and Burton, 1993; Camerer and Weber, 1992).

There has been research on various aspects of TPC promotions. Researchers have shown that the effectiveness of TPC promotions varies across products and services, possibly because there are different dynamics involved (Stafford and Stafford, 2000). More recently, research has examined the difference between tensile and scratch and save offers (Choi et al., 2010). One important aspect of TPCs that the literature has explored is the impact of various TPC frames on consumer perceptions. Biswas and Burton (1994) studied the effect of various TPC advertisement frames such as “save upto”, “save at least” and “save between..... and....”. They demonstrated that TPCs that state only the maximum savings level (save upto...) result in a more favorable consumer perception than TPC which states the range (save between ... and ...), and, these in turn result in better consumer perception than TPC which states the minimum (save at least ...). Biswas and Burton (1993, 1994) have also explored the effect of a fixed price claim compared to an equivalent TPC.

Extant studies have studied the impact of TPC on consumer decision making for TPC stating the magnitude in rounded percentage terms (e.g. “save between 10% and 30%” or “save upto 40%”). However, no known study has so far explored the impact of TPC stating the magnitude in terms of a just-below number (e.g. “save between 10% and 39%” or “save upto 39%”). The growing adoption of such TPC frames by retailers makes it important to study them. In fact, at a first glance, a claim such as “upto 39% off” seems to be worse off than a claim “upto 40% off” on two counts. First, 39% off is less than 40% off, second, the literature on just-below price frames or odd price ending literature suggests that consumers tend to pay more attention to left most digit (Thomas and Morwitz, 2005). This could accentuate the difference in perceptions associated with the two promotions, those of “upto 40% off” and “upto 39% off”. The objective of this article is to study the effect of TPC promotions with round and just-below frames.

2.2. Just-below frames

Pricing endings with just-below numerical framings are quite frequent, and in some categories 9 is a common right digit number used in the price (Kreul, 1982; Schindler and Kirby, 1997). This practice of setting prices just-below a round number is referred as “just-below” or “Odd” pricing (Kleinsasser and Wagner, 2011; Monroe, 1979; Stiving and Winer, 1997). Recent research suggests that such numeric framings as round or just-below for the price can have a significant impact on firms' revenues (Anderson and Simester 2003; Blattberg and Neslin 1990; Ngobo et al., 2010).

The most common explanation offered for the beneficial effect of just-below price framing is that consumers tend to round prices down (Gabor and Granger 1964; Schindler and Warren, 1988).

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