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Moderating effect of peer group environment on consumer predisposition towards premium promotions: A study on young urban consumers in India

Subhojit Banerjee *

School of Management, Gautam Buddha University, Greater NOIDA, Gautam Buddha Nagar 201308, India

Received 13 May 2014; revised 12 November 2015; accepted 5 October 2016; available online

KEYWORDS

Sales promotion;
Premium promotion;
Hedonic promotion;
Freebies;
Peer-group environment

Abstract The role of peer-group environment as an influencing factor in purchase decisions is well established. This paper broadens the above premise and studies the influence of peer-group environment on an individual's promotional choice in the context of premium promotions or freebies. Two sets of college students with distinctive peer-group settings in terms of their academic pursuit and residential details have been considered for the study. Discriminant analysis shows that higher interaction and educational orientation of group members influence the customer's promotional preference. Students pursuing professionally oriented courses had a distinctively higher preference for premium-promotions that were hedonic.

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Introduction

Marketers have long tried to understand the influence that social groups have on the purchase decision of individuals. With the growth in young consumers (between the ages of 12 and 34), the relevance of peer group influence on purchase behaviour is felt all the more strongly. The role of peer group on purchase decision amongst youngsters has been stated to be an important influence in many research studies (Fan & Li, 2010; Hawkins & Coney, 1974; Williams & Burns, 2001).

However, the mechanism of this influence is still an under-researched area.

Sales promotions that accompany a product also have an influential role on consumer purchase. Sales promotions, besides providing quantifiable benefits such as monetary savings, convenience and quality, also provide benefits of value expression, exploration and entertainment (Chandon, Wansink, & Laurent, 2000). This benefit that the consumer gets over and above the benefit of the product attains greater value because of bundling the product and the freebie. This increase in value is as per the principle of segregation which states that the overall value of segregated gains will be higher than the value of integrated gains (Thaler, 1985). Therefore, consumers purchase (and evaluate) product bundles of which sales promotion is a part. Further, as the

* Corresponding author.

E-mail address: subhojit_b@hotmail.com

<http://dx.doi.org/10.1016/j.iimb.2016.10.002>

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non-quantifiable benefits of sales promotion, namely, value expression, exploration, and entertainment are behavioural, we submit that there exists an interaction between peer-group and sales-promotion.

Prior research has shown that preference for a particular type of promotion is affected by income, education, human capital, psychological factors, product-category, and demographics (Banerjee, 2009; Blattberg & Neslin, 1990; Chandon et al., 2000; d'Astous & Jacob, 2002; Kwon & Kwon, 2007; Ratchford, 2001). This paper is an attempt to seek evidence on the moderating effect of peer-group on the preference of premium sales-promotion provided as a freebie. In the context of this paper, freebies are the products that are given free along with the purchase of a product. An example of a freebie can be a magazine that is offered free by a new publisher on purchase of a particular book, or a small toy that comes with the purchase of a packet of snacks. Freebies are preferred by marketing strategists because of their ability to form unique combinations when bundled with different products.

The main objective of the paper is to investigate if different peer-group environments influence the choice of premium promotion, and if a particular set of peer-group tilts the consumers' choice of premium promotion towards a hedonic freebie.

Promotions as part of the product offering

Advertising expenditures globally are around \$500 billion, one third of which is expected to be the share of emerging markets such as India, China, Brazil, and Russia (Johnson, 2013). Reports also suggest that the trend in advertising and promotion is shifting more towards promotion (Pande & Bhushan, 2012). With major companies such as PepsiCo and LG allotting 60 to 70% of their advertising budget to sales promotion in India, sales promotions have become a key element in the overall marketing strategy (Pande & Bhushan, 2012). With sales-promotion expenditures forming a major chunk of overall advertising and promotion expenses, the contribution of sales promotion towards successful marketing strategy is strongly felt (Yeshin, 2006).

Promotions are used for many purposes, viz, to stimulate purchase directly by increasing the overall customer value through discounts, and through subtle influence like appealing to the customer's lifestyle. But whatever the purpose of a promotion, one fundamental role of promotion is to communicate the firm's product offerings to the customers (Rowley, 1998). Considering the informational role that a peer group has in a purchase decision, promotional campaigns do not just influence the consumer, but also the peer group on which the consumer relies for information.

Promotions have been categorised by various authors based on economic criteria of gains and losses (Kahneman and Tversky, 1984; Puto, 1987; Thaler, 1985): behavioural aspects such as "deal-proneness" (Bawa & Shoemaker, 1987; Blattberg & Neslin, 1990; Narasimhan, 1984) and the purpose for which they are used i.e. hedonic or utilitarian (Banerjee, 2009; Chandon et al., 2000). Hedonic promotions provide benefits in terms of value-expression, entertainment, and exploration while utilitarian promotions provide benefits that are monetary or useful in enhancing quality and convenience (Chandon et al., 2000). Although promotions encompass a large variety

of activities ranging from point-of-purchase display materials to cash discounts, of late there has been a spurt in promotional offerings in the form of freebies or premiums.

The premium provided by a company as a promotional stimulus is a product or a service offered for free or at a relatively low price in return for the purchase of one or many products or services (d'Astous & Jacob, 2002). Freebies have been used to draw the attention of new customers as well as to enter new customer segments.

Freebies bundled with products can be classified as hedonic or utilitarian based upon the usefulness of the freebie (Banerjee, 2009). The paper tries to bring forth the effect of peer-group influence on consumers with regard to their preference for promotions that are bundled with products as freebies. The paper also is an attempt to verify the relationship between peer-group characteristics defined by the commonality of career-objectives (pursuing professional courses vs conventional courses) and time spent together in pursuit of career objectives (day scholars vs boarders), with group cohesiveness and conformity which, in turn, influences the individual's disposition towards a particular type of promotion.

Review of literature

Previous studies indicate that peer groups influence the impact of promotions (Childers & Rao, 1992; Harris & Rae, 2009; Hawkins & Coney, 1974; Palmer & Koenig-Lewis, 2009; Park & Lessig, 2007). One of the reasons for this is the influence that peer group and family have on the learning of an individual (Aribarg, Arora, & Bodur, 2002; Bush, Smith, & Martin, 1999; Rose, 1999). While sales promotion influences behavioural learning, cognitive processes such as attribution, price perception, perceived risk, and consumer perception that are reflected in attitude and purchase decision are affected by the peer group (Blattberg & Neslin, 1990). Therefore, the question that arises is, is there a mutual interaction of peer-group influence and sales-promotion since peer group influences an individual's learning and sales promotion also has a similar effect?

Research shows that various types of sales promotions differ in the role they play in consumers' buying decisions (Banerjee, 2009; Wakefield & Barnes, 1997). A number of studies have shown that promotions tend to give informational cues about the price of the product, its quality and brand image (Blattberg & Neslin, 1990; Diamond, 1992; Folkes & Wheat, 1995; Kalwani & Yim, 1992; Thaler, 1985). Further, the manner in which the informational cue given by a promotion is processed in the consumer's mind eventually leads to a favourable or an unfavourable purchase decision.

Peer group learning and influence has been established as a factor for an individual's cognitive behaviour. An individual's personality, attitude, and perception are all shaped by the peer-group. The study conducted by Matzler, Bidmon, and Grabner-Krauter (2006) observes the existence of a relationship between personality traits, hedonic value, brand affect, and loyalty. Hence, it can be drawn that the processing of informational cues given by any promotion would also be affected by peer group. However, the effect of a customer's personal characteristics and peer group environment on promotional choice is an unexplored area (Alford & Biswas, 2002).

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