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The effects of promotional frames of sales packages on perceived price increases and repurchase intentions☆

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ABSTRACT

This article explores how framing a promotional package (i.e., presenting the promotion as a bundle versus as a free gift) influences consumers' price assignments to the individual items in the package. It examines the potential influences of framing on consumers' perceptions of price increases and repurchase intentions after the promotion expires. The findings show that when a package contains two different products, consumers in the free gift (bundle) condition assign a higher price to the focal (supplementary) product, perceive a smaller price increase, and exhibit higher repurchase intentions toward the focal (supplementary) product after the promotion ends. If the promotional package contains two identical products, the free gift promotion generates higher perceived price increases and lower repurchase intentions than a price bundle, through similar price assignment mechanisms. An incentive-compatible experimental design finds that a free gift promotion lowers consumers' willingness to pay for the target product compared with a price bundle promotion. The findings of this research have significant implications for both framing research and marketing practice.

1. Introduction

By combining two or more products and selling them at one price (Guiltinan, 1987; Popkowski Leszczyc & Häubl, 2010), a bundle can reduce consumers' time, transaction, and monetary costs (Yadav & Monroe, 1993). Marketing promotions often feature such bundles; for example, convenience stores in Taiwan frequently offer promotions like "buy a sandwich and a drink for only NT$X." McDonald's consumers similarly appreciate value meals, which include a hamburger, fries, and a drink for a fixed price. Other common promotions feature free gifts (Kamins, Folkes, & Fedorikhin, 2009; Raghubir, 2004), such as the free toy McDonald's sometimes includes with the purchase of a Happy Meal. In some cases, the free gift promotion represents an alternative version of a bundle promotion. For example, the "buy shampoo and conditioner for $X" is economically equivalent to "buy shampoo for $X and receive conditioner for free."

Marketing managers need to know which type of promotion is more likely to increase short-term sales, even if the cost is the same. Then they must calculate whether the different frames influence future sales of the items in the package, after the promotion has expired. To answer these problems, marketing managers first need to discern which promotional frame is more attractive to consumers, then they must determine which frame produces fewer negative responses when the promotional campaign ends and consumers potentially perceive a price increase (compared with the previous promotional price). These consumer perceptions of price increases are extremely important because they can affect their repurchase intentions.

Previous studies explore many theoretical and empirical aspects of free gifts (Laran & Tsiros, 2013; Nunes & Park, 2003), as well as of bundles (Johnson, Herrmann, & Bauer, 1999; Lee, Tsai, & Wu, 2011; Popkowski Leszczyc & Häubl, 2010; Yadav, 1994; Yadav & Monroe, 1993). Several studies contrast the effects of promotional type with the effects of simple price discounts (Chandran & Morwitz, 2006; Chou & Lien, 2012; Harlam, Krishna, Lehmann, & Mela, 1995; Raghubir, 2004). Kamins et al. (2009) even compare the short-term attractiveness of bundles versus free gift promotions, and they conclude that the relative attractiveness does not differ. However, despite an increasing number of studies that explore the long-term effects of promotions (e.g., Jedidi, Mela, & Gupta, 1999; Mela, Gupta, & Lehmann, 1997; Palmeira & Srivastava, 2013; Tsiros & Hardesty, 2010), no research compares the long-term effects of bundles versus free gift promotions, which is a critical issue for many marketing managers. Therefore, this study investigates the relative effects of framing (i.e., bundle vs. free gift) on consumers' post-promotional responses to a focal product (i.e., the item with the highest reservation price or highest perceived value) and a supplementary product (i.e., the one with a lower

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reservation price or lower perceived value) (Kamins et al., 2009; Raghubir, 2004; Yadav, 1994).

To develop a more comprehensive theory of the long-term effects framing has on individual items in a package, we integrate mental accounting theory, which suggests that different semantic characteristics influence the way consumers assign prices to individual items (Soman & Cheema, 2001; Soman & Gourville, 2001). We infer that the framing of the promotional packages influences price assignments toward the focal and supplementary items. Building on research that examines reference pricing (e.g., Mayhew & Winer, 1992; Winer, 1986), we further propose that the framing of the package influences consumers' perceptions of price increases and repurchase intentions for the individual items after the promotion expires.

We also test the framing effects of price bundles and free gift promotions in which the two products are identical. Sinha and Smith (2000) suggest that consumers prefer "buy one, get one free" (i.e., free gift promotion) rather than "buy two, get 50% off" (i.e., price bundle), because in the latter condition consumers believe that they must buy two items to get the discount, whereas the former condition promises them a discount when buying just one item. However, we do not know how such frames influence the future sales of the product subsequent to the promotion's expiration. By considering how consumers assign prices to the first and second items of a package, we propose that the use of free gift or price bundle promotions have different influences on perceived price increases and future purchase intentions.

To test our propositions, we develop and run a series of systematic experiments. In the pilot study and Experiments 1 and 2, we use different designs to compare the effects of framing on two different products contained within a single promotional package. Experiments 3 and 4 introduce different samples and experimental scenarios to examine the framing effects on promotional packages that contain two identical products. The findings of all five studies contribute significantly to our understanding of the long-term effects of framing promotional packages. Furthermore, the results can help marketers select more suitable frames and encourage the careful optimization of cross-branding and cooperative promotional designs.

2. Theoretical background, hypotheses and conceptual framework

2.1. Mental accounting, sales frame, and price assignment

Consumers use cognitive rules to organize, evaluate, and record their financial activities (Thaler, 1985, 1999). They keep track of their financial activities and record various costs and benefits in specific mental accounts, then they use accounting rules, explicitly and implicitly, during their decision making process. Such mental accounting often involves assigning activities to specific accounts, though people can categorize a single event in various ways. Soman and Cheema (2001) and Soman and Gourville (2001) suggest that the semantic characteristics of transactions can influence consumers' assignments of prices to specific items. In particular, consumers can flexibly allocate a total price across several benefits in bundling situations because one price covers all the benefits. In a price bundle (e.g., buy two, get 50% off), consumers might allocate the total price to one specific item and treat the other as free, or they might divide the price across the two items equally or unequally. Prices and resultant benefits are unambiguous for unbundled transactions, but this connection becomes ambiguous in price bundling settings. Thus, we infer that different promotional frames affect consumers' price assignments to the specific items in a package.

Chandran and Morwitz (2006) propose that consumers ignore the monetary value of a free item, even when its price is readily available. Similarly, Raghubir (2004) argues that a free gift paired with another focal product causes consumers to infer that the free gift (i.e., supplementary item) has little value or that the focal product is overpriced. According to Darke and Chung (2005), when consumers consider a free gift rather than a price discount promotion, they are more likely to note the full price of the focal item when they make their price–quality inferences about that focal product. In such cases, consumers might not assign the supplementary item a price. In contrast, a bundle promotion obscures the single item price (Raghubir, 2005), which increases the difficulty consumers have when attempting to infer the prices of the supplementary items. As such, the regular price of a supplementary item might have a greater impact when consumers infer its transaction value in a bundle promotion. Consumers considering a bundle (vs. free gift) promotion should assign a higher price to the supplementary item, whereas in a free gift (vs. bundle) promotion they likely treat the supplementary item as complimentary and assign a higher price to the focal item. Following this logic, we advance the following hypothesis:

H1. Consumers assign higher prices to the focal product in a free gift promotion than in a bundle promotion, but they assign higher prices to the supplementary product in a bundle promotion compared to a free gift promotion.

2.2. Sales frames, reference prices, perceived price increases, and repurchase intentions

After promotions expire, the prices of the products return to their regular levels or they might rise to even higher levels. An issue of great practical importance is to understand the effects of the prior promotional package framing on consumers' perceptions of the post-promotion price increases and their repurchase intentions for the individual items (focal and supplementary).

Previous studies (Kalyanaram & Winer, 1995; Mayhew & Winer, 1992; Rajendran & Tellis, 1994; Winer, 1986) suggest that consumers form internal reference prices using the price they paid for the same product in the past. Consumers also develop personal price forecasting rules that enable them to compare a historical, deal-induced price against a normal price. Because the prices consumers assign to the focal and supplementary items might represent the past price paid for specific items in a package, consumers can use these as reference prices when they consider price increases in their repurchase decision (Mayhew & Winer, 1992).[2] Therefore, consumers considering purchasing a bundle (vs. free gift) promotion should assign lower prices to the focal item, and those consumers considering a free gift (vs. bundle) promotion should assign lower prices to the supplementary item. We predict that consumers considering the bundle (free gift) promotion perceive a higher price increase for the focal (supplementary) item after the promotion expires because their reference price point is lower.

Classic economic theory also suggests that price is negatively correlated to demand. Kalyanaram and Winer (1995) find a consistent, significant negative impact of reference prices on consumer demand. Similarly, Homburg, Koschate, and Totzek (2010) propose that price increases reduce consumer purchases. As such, consumers considering a bundle (free gift) promotion should express lower repurchase intentions for the focal (supplementary) item because they perceive greater

[2] Many scholars suggest that people form decisions, judgments, and responses using multiple reference points (e.g., Sullivan & Kida, 1995; Yim, Chan, & Hung, 2007). Mayhew and Winer (1992) argue that consumers use multiple reference points, including internal (e.g., past prices paid) and external (e.g., regular prices) reference prices to evaluate prices in their purchase decisions, which then affect the probability of purchase. Ordóñez, Connolly, and Coughlan (2000) find that when multiple reference points are available, people compare them separately to each referent and integrate their separate findings. Thus, even if multiple reference prices exist (e.g., past price paid and regular prices), each one might have a unique impact on consumers' price perceptions for the target product and affect their repurchase decisions. In this study, regular product prices are the same across the bundle and free gift promotions, so they should have the same impact in each promotional frame and can be ignored. We thus focus on the effects of one reference price (i.e., past prices paid/prices assigned to the product).

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