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How promotional frames affect upgrade intentions

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This article explores how sales package frames (bundle vs. free gift) influence consumers' cost assignments of target items (focal vs. supplementary) in durable product categories. The frames may influence consumers' upgrade intentions and decisions as a result of their different perceptions of psychological costs. In two experiments, participants in the free gift frame assigned more (fewer) costs to the focal (supplementary) product than did those in the bundle condition; those in the free gift condition also perceived higher (lesser) residual value and were less (more) likely upgrade to focal (supplementary) items than people in the bundle condition. Moreover, the framing effect of sales packages on upgrade intentions was moderated by the promotional format (price discount vs. trade-in) at the time of the upgrade decision. The effect of the sales package frames on upgrade intentions became more pronounced when the temporal separation was short and usage frequency was low. These findings have significant implications for both theoretical developments and marketing practice.

1. Introduction

In many industries, continual product enhancement is a key component of success. Okada (2006) indicates that sales increases and business development by most companies depend not just on new users but also on current owners of existing versions who upgrade to an enhanced model, even before the useful life of their existing model expires. Take the iPhone as a notable example. When Apple introduced the iPhone 5, it attracted not only new users who had never owned an iPhone but also a lot of existing users who owned older models, such as the iPhone 4. Exploring factors that might influence consumers' upgrade intentions thus is important for practice.

In Okada's (2006) terminology, an upgrade decision takes place when a consumer already owns a functional product but considers purchasing a new, enhanced version that makes the existing product redundant. Several studies have started to explore relevant factors that influence upgrade intentions. For example, the expected relative utility or benefit of existing

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vs. new versions, relative to the cost of the new version, likely influences consumers' upgrade decisions (Ellison & Fudenberg, 2000; Nahm, 2004; Zhao & Jagpal, 2006). Other studies instead focus on the psychological loss of closing a mental account associated with an owned product (Okada, 2001, 2006; Zhu, Chen, & Dasgupta, 2008). For example, Okada (2001) posits that consumers develop a "mental book value" for owned products, which they calculate by taking the initial purchase price and subtracting the cumulative benefits attained from its use since its purchase. If the consumer buys the upgrade, he or she no longer uses the previous version and therefore must close the mental account related to that existing product, which may produce a psychological cost. Consumers' upgrade decisions thus may reflect the mental costs of retiring an old model, before they have "gotten their money's worth." Finally, several moderators likely influence consumers' upgrades, such as promotional formats (trade-in vs. price discount, Okada, 2001), usage frequency (Okada, 2001), product similarity (Okada, 2006), anticipated regret and justification (Shih & Schau, 2011), trade-in conditions (overpaid vs. underpaid for the trade-in, controlling for the net paid price, Purohit, 1995), or transaction conditions (buying alone vs. trade-in, Zhu et al., 2008). Guiltinan (2010) even proposes a framework for conceptualizing the upgrade decision process.

Yet among all these contributions, no studies have explored how the frames of sales packages (e.g., bundle vs. free gift) influence consumers' initial cost assignments to specific items and influence consumers' perceived values and willingness to upgrade in the future. This gap is surprising, considering how many manufacturers and retailers offer sales package promotions to attract consumers in the real world. Although previous studies separately explore upgrade decisions and the impact of sales package frames, no comprehensive assessment combines these issues. For example, Harlam, Krishna, Lehmann, and Mela (1995) cite the relative attractiveness of bundle and free gift frames (without conclusive recommendations), but their propositions and results do not clarify the prospect of future sales for specific items in packages. Similarly, even as Guiltinan (2010) offers a conceptual structure for consumers' replacement decision making, he ignores the framing effects of sales packages. Exploring this issue can help advance theory and offer practical guidelines for economic behavior.

This study focuses on two sales packages: bundles vs. free gifts. A bundle combines two or more products, sold at a single price (Guiltinan, 1987), which can reduce consumers' time, transaction, and monetary costs (Yadav & Monroe, 1993). Promotions often rely on such bundles; McDonald's consumers pay for value meals, which include a sandwich, fries, and drink, at a set price. Similarly, a common marketing practice in big box chain stores in Taiwan is to offer "buy computer + printer for only NT$X." Free gifts represent another sort of sales package promotion feature (Raghubir, 2004). In this case, McDonald's provides free toys with the purchase of a child's Happy Meal, and retailers in Taiwan might promote "buy a bed, get a floor lamp for free."

In some sense, a free gift promotion represents an alternative version of a bundle promotion. For example, "buy computer + printer for $X" is economically equal to "buy a computer for $X, and receive the printer for free." Marketing managers need to determine which promotion phrasing is most likely to increase current sales, at the same cost. In addition, they must calculate whether the different sales package frames affect future sales of the items differently. The focus for this study is not the relative attractiveness of the two promotions (Harlam et al., 1995). Instead, this study considers a focal product, defined as the one with the highest reservation price or highest perceived value in a sales package, and a supplementary product, which exhibits a lower reservation price or less perceived value (Kamins, Folkes, & Fedorikhin, 2009; Raghubir, 2004; Yadav, 1994). In so doing, the present research addresses the framing effects of sales packages on consumers' initial assignments of costs to two items (focal vs. supplementary) when they acquire the sales package, and therefore on consumers' perceptions of residual values and upgrade decisions for each specific item.

1.1. Mental accounting, sales frames, and cost assignments

Mental accounting refers to the cognitive rules consumers use to organize, evaluate, and record their financial activities (Thaler, 1985, 1999). Consumers keep track of their financial activities, and accounting rules influence their decisions explicitly or implicitly. Thaler (1999) indicates that a main component of mental accounting entails the assignment of activities to specific accounts, though people can categorize a single event in different ways (Shafir & Thaler, 2006; Soman & Gourville, 2001). For example, they might value an event differently if the time of their consumption is separate from the time of purchase, such as when theatergoers pay for their tickets months before they use them. In this case, people tend to regard their early purchases as an investment rather than an expenditure, so by the time of consumption, they have forgotten the price, and the product seems free or even a form of saving (e.g., spending $20 for a bottle of wine that appreciates over time). If they lose a previously purchased product (e.g., break the bottle), the replacement costs are more salient.

Soman and Cheema (2001) and Soman and Gourville (2001) suggest that the semantic characteristics of transactions also can influence consumers' cost assignments. In particular, people exhibit the flexibility to allocate total costs across several benefits when they face a price bundling condition, because one price covers all the benefits. In a mixed promotion (e.g., buy one, get one free), consumers might allocate the total cost to one item and treat the other as free, or else they could divide the cost across the two items, whether equally or unequally. Soman and Gourville (2001) also show that costs and benefits are unambiguous for unbundled transactions, whereas their connection becomes ambiguous in price bundling, such that consumers flexibly assign costs across items.

According to these previous studies into semantic cues and mental accounting, different frames likely influence consumers' cost assignments to specific items in a sales package. Consumers in a bundle (vs. free gift) promotion condition seemingly should assign more costs to the supplementary item, whereas in a free gift (vs. bundle) promotion condition, they might be more likely to treat the supplementary item as free and assign a higher cost to the focal item. That is,