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Investigating discounting of discounts in an online context: The mediating effect of discount credibility and moderating effect of online daily deal promotions

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ABSTRACT

This research sheds light on the theoretical mechanism behind consumer discounting of discounts and extends it to the online daily deals context. Based on advertising and behavioral pricing research, we develop and empirically test a conceptual model of the effects of discount level on consumer perceptions of discount credibility, the extent of discounting of discounts, and change in purchase intentions for online daily deal promotions as compared with price promotions offered directly by online stores. The findings offer important managerial recommendations for retailers and daily deal managers with respect to utilizing direct online price promotions and daily deal promotions.

1. Introduction

The landscape for price promotions, a common technique used to enhance consumer attitudes toward the deal and purchase behavior, has changed in recent years. Foremost, the typical discount size in price promotions has increased. For example, JCPenney – a large United States department store chain – reported that only one in every 500 items is sold at regular price and that the average discount has increased from 38% a decade ago to 60% in 2012 (Kapner, 2013). Although a deep discount may have been an indicator of a clearance item a decade ago, today it is not unusual to find such or even more aggressive discounts on regular merchandise. In addition, a relatively new online promotion format, known as online daily deals or social coupons, has gained in popularity (Nakhata and Kuo, 2017). For example, Groupon, a well-known daily deal aggregator, has over 48 million active customers as of 2017 and has conducted over one billion transactions (Groupon, 2017). Daily deal providers promote large discounts up to 95% for a limited period of time (Kukar-Kinney et al., 2016; Liu and Sutanto, 2012). Since consumers are skeptical of advertising claims (Obermiller et al., 2005), an important question is to what extent consumers actually believe and act upon these even more aggressive discount claims.

Research demonstrates that consumers doubt extreme price claims and do not take them at face value (Kim and Kramer, 2006; Urbany et al., 1988). When encountering an aggressive price promotion, consumers reduce the associated savings to a more believable level, known as discounting of discounts (Gupta and Cooper, 1992). The extent of discounting of discounts is greatest at high discount levels (Gupta and Cooper, 1992). However, previous research has not explored the theoretical mechanism driving the relationship between advertised discounts and discounting of discounts. In addition, while previous research shows that discounting of discounts is highest when offered online in general (Kukar-Kinney and Carlson, 2015), it has not studied the influence of *specific* online contexts such as a daily deal discount context compared to a direct online store discount context. Exploring differences in discounting of discounts across different types of online contexts is especially relevant given the prevalence of aggressive discounts, which previous research suggests are discounts of a large magnitude at around 50% up to 90% (Eisenbeiss et al., 2015; Kukar-Kinney and Carlson, 2015; Parsons et al., 2014).

To address this gap, we draw on advertising and behavioral pricing research to develop and empirically test a conceptual model predicting consumer response to discounts in an online daily deal versus a direct online store price promotion setting. In addition, we examine how discount credibility – acting as a key theoretical mechanism – influences consumer discounting of discounts and purchase intentions. Daily deals focus on and have a reputation for promoting highly discounted deals. Given that discount offers, especially online, are vulnerable to extensive consumer discounting (Kukar-Kinney and Carlson, 2015), a question arises as to whether such aggressive offers further decrease discount credibility, resulting in higher discounting of discounts, and consequently, lower purchase intentions. Therefore, an additional goal

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is to compare how online daily deals differ from direct online store price promotions with respect to the relationships between discount level, discount credibility, discounting of discounts, and purchase intentions. Due to the aggressive discount nature of daily deals, the primary focus of this work is on uncovering consumer perceptions of discount credibility and consequently, discounting of such discounts.

This research provides two key contributions related to discounting of discounts: 1) this is the first study to document that advertised discount influences discounting of discounts indirectly, through perceptions of discount credibility; and 2) it is the first research to show that online discounting differs between a direct online store discount context and daily deal discount context. While we confirm results from previous work, the second contribution is of particular importance because we challenge the assumption that discounting of discounts functions the same way across all online channels and show that the nature of the online context (i.e., direct online retail context versus a daily deal) significantly affects both how consumers process large discounts as well as their downstream responses to such discounts. Finally, we contribute to recent work documenting that daily deal websites positively influence cognitive and attitudinal responses to advertisements (Eisenbeiss et al., 2015; Ieva et al., 2017).

Next, we develop and discuss a conceptual model that serves as the basis for our hypotheses. We then describe the method, followed by analyses of the data and results. We end with a discussion of the results, key theoretical contributions, implications and future research opportunities, and how the findings further lead to important managerial implications for online stores and daily deal managers.

2. Conceptual model

Discounting of discounts refers to the difference between the advertised and the perceived discount levels, and reflects the amount by which consumers reduce the perceived savings associated with a specific advertised discount level. Extant research has demonstrated that as the advertised discount increases, so does the extent to which consumers discount the advertised discount level (Gupta and Cooper, 1992; Kukar-Kinney and Carlson, 2015). Although previous work demonstrates discounting of discounts is stronger online than for bricks-and-mortar stores (Kukar-Kinney and Carlson, 2015), it has explored neither the theoretical mechanism driving discounting of discounts nor the influence of aggressive online price promotion contexts, such as daily deals.

We argue that discount credibility is a key mediator that affects how advertised discount impacts discounting of discounts (Fig. 1). We also posit that discount context (daily deal versus a direct online store promotion) moderates the relationships between advertised discount, discount credibility, discounting of discounts, and purchase intentions.

2.1. The mediating effects of discount credibility on discounting of discounts

Discount credibility reflects the extent to which consumers believe the advertised discount (Kim, 2006). Discount credibility is specific to consumer perceptions of credibility in a pricing context, whereas constructs such as ad skepticism are not price-specific. For example, ad skepticism focuses on a stable characteristic of individuals and captures the tendency toward disbelief of advertising claims in general (e.g., Obermiller and Spangenberg, 1998), rather than the believability of specific aspects of a message, such as price/discount.

Pricing research has long demonstrated that consumers are skeptical about the veracity of price offers, including high reference price claims, large percentage discounts, or deep refunds (Kim and Kramer, 2006; Mobley et al., 1988; Urbany et al., 1988). The more extreme the claims are, the lower their believability (Goldberg and Hartwick, 1990; Urbany et al., 1988). Similar to an internal reference price indicating an expected price range (Urbany et al., 1988), consumers may form an internal reference price discount range and the levels that fall outside the expected range are more likely to be noticed. As a result, consumers may perceive larger than expected discounts as less credible. Our conceptualization of discount credibility is consistent with previous work, which is based on the premise that consumers may not believe advertised discount claims, and demonstrates that a large discount may go beyond a consumer's latitude concerning its believability. This in turn may lead to that consumer questioning the truthfulness of the discount or pricing offer (e.g., Compeau and Grewal, 1998; Kukar-Kinney and Walters, 2003; Obermiller and Spangenberg, 1998).

A direct relationship should also exist between perceived discount credibility and the extent of consumer discounting of discounts. When consumers perceive persuasive messages as credible, cognitive and emotional responses should be more favorable. For instance, Cotte et al. (2005) find that the greater the perceived ad credibility, the more consumers feel guilty when exposed to guilt appeals. Applied to a price discount context, a more favorable response for discounting of discounts means *lower* discounting of discounts. Therefore, consumer discounting of discounts – a cognitive response – should be reduced for highly credible discounts. Taken together, and unlike previous research (Kukar-Kinney and Carlson, 2015) that demonstrates a direct relationship between advertised discounts and discounting of discounts, this suggests that advertised discount affects discounting of discounts *indirectly*, through discount credibility. Formally, we predict the following:

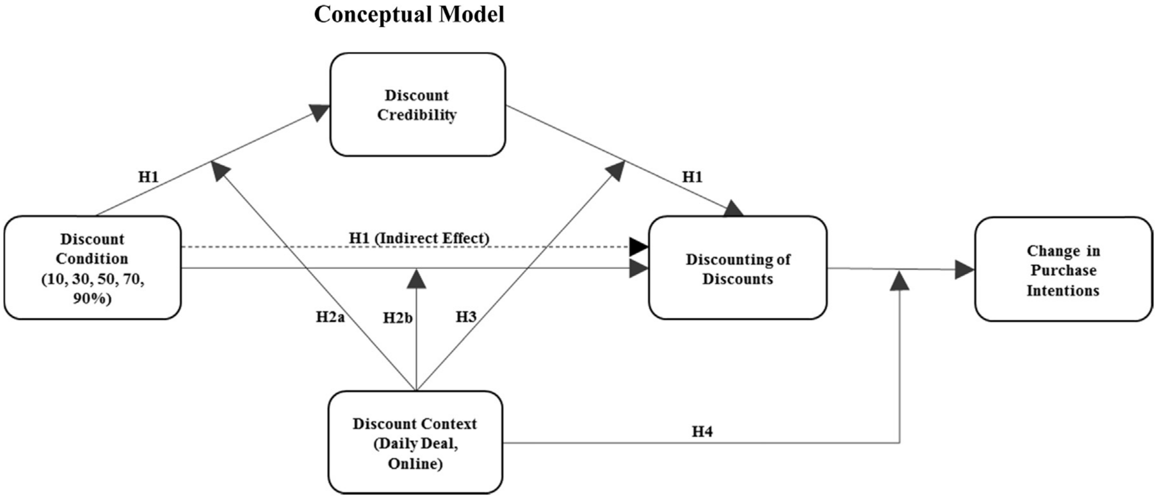
Conceptual Model
Discount Credibility
H1
H1
Discount Condition (10, 30, 50, 70, 90%)
H1 (Indirect Effect)
Discounting of Discounts
Change in Purchase Intentions
H2a
H2b
H3
Discount Context (Daily Deal, Online)
H4

Fig. 1. Conceptual model.

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