

Gambling for a Discount: Preferring Discount Per Item to Discount Per Purchase?

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EXTENDED ABSTRACT

Price discounts are a well-studied promotional method (e.g., Hardesty and Bearden 2003). How discounts are offered has an influence on consumers' deal perception (e.g., DelVecchio, Krishnan, and Smith 2007). Although various discount frames have been investigated, there remains a paucity of research on risky discounts. These are discounts that are determined by a chance procedure (e.g., 'scratch & save' cards). Research on risky discounts is needed because they are actually offered and because they differ from other discount formats in at least one important respect: even after choosing a product, consumers do not know how much discount they will receive. Consumers receiving risky discounts are playing a gamble with an unknown outcome.

To enhance our understanding of risky discounts we assess in three studies whether consumers prefer to get risky discounts per purchase or per item and why they prefer one discount format over the other. In fact, these options differ with regard to several respects (e.g., saving distribution) but they do not differ with regard to expected values.

Study 1 was conducted in an environment where risky discounts are offered, in Canada. 150 participants completed a questionnaire on a 'scratch & save' card discount policy. According to this policy customers pick a card and scratch it to reveal their particular discount rate. Each card informs about possible discount rates (e.g., 10%, 25%, 50%) and their associated probabilities. Participants were asked to choose between getting such a discount per item (i.e., separate cards for each item) or per purchase (i.e. one card overall). Options do not differ with regard to expected value. After choosing a discount format, participants were asked to report their main reason for their choice.

A significant majority of participants (82%) chose the item-specific discount. The main reason given was that participants thought that this option would be more likely to provide them with a higher discount. Some thought they would get a higher discount overall, others thought that they would get a higher discount at least once, but most did not further clarify their claim. Some of those choosing the purchase-specific discount also did so because they believed that purchase-specific discounts would be superior with regard to expected discount. However, most choosing the purchase-specific discount did so because they preferred to keep things simple.

Participants of Study 1 were familiar with risky discounts in general but they were not familiar with item-specific discounts. To ensure that results were not due to a familiarity bias Study 2 replicated Study 1 in a country where purchase-specific and item-specific risky discounts are equally novel to consumers, the UK. 67 participants participated in an exact replication of Study 1. Again, a significant majority of participants (67%) preferred the item-specific discount. The differences in reasons mentioned across options largely corresponded to those established in Study 1. Most participants preferred one discount per item because the probability of receiving a higher discount was perceived as being higher, i.e. participants appeared to be more hopeful.

Study 3 aimed to corroborate these findings using a different design. 54 participants read a scenario that was based on the discount policy used in the previous studies. Participants were told that one shopper, Susan is offered one 'scratch & save' card for her purchase of four items whereas another shopper, Molly, is offered

four cards for the same items. Participants answered four questions designed to shed light on their underlying preferences: They had to indicate whether Susan, Molly or both equally would (a) be more hopeful when starting to scratch, (b) have better chances to get an overall discount of more than 25% off, (c) and of at least 50% off, and (d) spread more positive word-of-mouth communication about the shop. Separate analyses for each of these questions show that item-specific discounts are perceived as inspiring more hope, as more likely to lead to a higher discount and as more likely to lead to positive word-of-mouth communication.

Across studies we found that consumers prefer risky item-specific discounts to risky purchase-specific discounts, mainly because they seem to inspire more hope. Interestingly, this hope does not seem to relate to actual characteristics of savings distributions. In study 3, consumers were not able to realize actual changes in overall outcome probabilities that result from splitting a purchase-specific discount into multiple discounts per item. Rather, across studies many consumers seemed to be hopeful either because of a biased perception of probabilities or because the item-specific discount option led to a shift in mindset: many consumers choosing the item-specific discount seemed to aim to at least once "hit the jackpot" rather than making a good deal overall. From a retailer's perspective, offering item-specific risky discounts is rational as long as discount administration is feasible. In particular the observed shift in mindsets may lead to more satisfied consumers: In the case of purchase-specific discounts, only those getting an overall high rare discount will be especially satisfied. In the case of item-specific discounts, all those getting a high discount on one single item will be satisfied.

Considering that not everyone preferred item-specific discounts and that there is still much to learn (e.g., verifying the observed preference across product categories and different amounts of items) we recommend offering a choice between purchase-specific and product-specific risky discounts rather than forcing consumers into one discount format. Risky discounts make it possible to offer consumers such a choice.

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