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When and how should retailers rationalize the size and duration of price discounts?

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ABSTRACT

Context: Price discounts are common retail promotional tools that are defined by their size and duration. Consumers possess a general schema in which they believe that retailers are motivated to associate larger price discounts with shorter durations and smaller price discounts with longer durations. However, factors influencing promotion management frequently lead retailers to present discount size/duration combinations that are incongruent with this schema. What are the consequences for retailers of presenting consumers with such discounts, and what can retailers do to overcome detrimental effects of incongruent discount terms?
Objective: This research examines how incongruent pairings of discount size and duration affect consumer evaluations of the offer (i.e., perceptions of retailer credibility, product quality, retailer opportunism, and purchase intentions). Further, can retailers impact consumer evaluations by presenting rationales for incongruent discounts? If so, how should these rationales be constructed?
Method: A preliminary study ($n = 480$) validates the critical assumption that, across a variety of products, consumers expect discount size and duration to be inversely related. Two experiments ($n = 190$, $n = 226$) assess the effects of discount size, discount duration, and rationales on consumer offer evaluations.
Results: The experiments reveal that schema-incongruent (versus schema-congruent) price discounts diminish consumers' purchase intentions even when the incongruence reflects an ostensibly superior offer. Consistent with a theory-of-mind account of how consumers interpret retailers' behaviors, perceptions of retailer credibility and product quality mediate these effects. Addressing questions of whether and how retailers should provide rationales for incongruent discounts, analyses show that the same rationale can attenuate or exacerbate consumers' negative responses depending on how the rationale influences perceptions of discount congruency.
Conclusion: Failing to consider the interactive effects of discount size and duration may lead retailers to design ineffective promotions. Further, while rationales can help overcome detrimental effects of incongruent discount size/duration pairings, improperly constructed rationales exacerbate these negative effects.

1. Introduction

While price discounts are often effective for increasing short-term sales, they also frequently fail to perform as expected (Anderson & Simester, 2001). A potential reason for such mixed outcomes is that consumers believe that retailers often enjoy large profit margins at their expense (Bolton, Warlop, & Alba, 2003; Kahneman, Knetsch, & Thaler, 1986). Price discounts reinforce this belief by implying that retailers can remain prosperous despite charging lower prices (Darke & Ritchie, 2007; Vohs, Baumeister, & Chin, 2007). The present research suggests that retailers may inadvertently contribute to both price discount successes and failures by selecting (in)congruent discount terms and by providing (or failing to provide) consumers with discount rationales.

A key piece of information for evaluating a price discount is the discount's duration; that is, the length of time the discount is in effect (Inman, Peter, & Raghubir, 1997). Guided by a general belief that retailers seek to maximize profits (Bolton et al., 2003; John, 1999; Wright, Friestad, & Boush, 2005), consumers may expect larger discounts to have shorter durations because longer durations could result in significantly reduced profits (Carlson, Bearden, & Hardesty, 2007). Conversely, because smaller discounts sacrifice less profit (per unit) and are less appealing as incentives, consumers may expect smaller discounts to have longer durations. However, market data reveals that discount sizes and durations are often unrelated or even positively related because retailers face a complex orchestration of budgeting methods, advertising, in-store displays, inventories, and strategic concerns (e.g., Anderson & Simester, 2001; Bolton & Shankar, 2003; Krishna & Zhang, 1999; Pesendorfer, 2002).

An important initial step is to verify that consumers do, in fact, expect an inverse relationship between discount sizes and durations. A sample of 480 adult U.S. respondents (65.7% male, average age = 24.7 years) recruited from a national panel viewed five discount sizes

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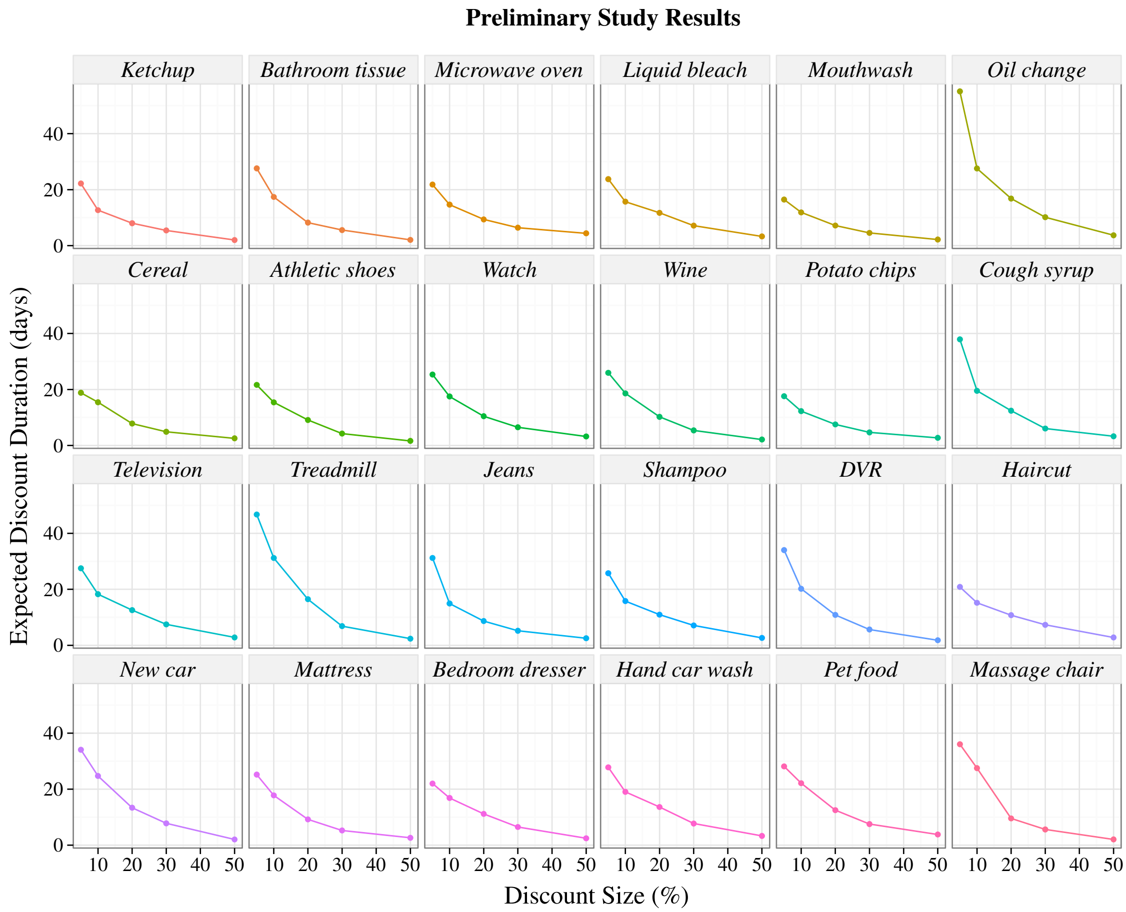

Fig. 1. Preliminary study results.

(5%, 10%, 20%, 30%, 50%) in random order for one product or service randomly selected from the 24 categories comprising the US Consumer Price Index (see Fig. 1). Discount sizes, rather than durations, were provided because of the primary role that discount size plays when consumers consider price promotions (e.g., Kumar, Madan, & Srinivasan, 2004). Respondents saw a range of typical regular prices to establish a price context for each product or service (e.g., \$2–\$4 for ketchup, \$40–\$50 for jeans). They then provided the total duration (in days) they expected each discount size to last. Twenty respondents provided expected durations for each product or service. Fig. 1 reveals that consumers do expect retailers to use shorter durations for larger discounts for all 24 categories. For example, for jeans, discount sizes of 5% and 50% led to expected discount durations of 31.2 days and 2.5 days, respectively. Thus, results obtained across a variety of product categories confirm that consumers expect discount sizes and durations to be inversely related.

Few studies have directly examined the joint effects of discount size and duration. Inman et al. (1997) report that consumers view a discount duration cue as a signal for a good deal, but only when the signal is corroborated by the presence of a larger (versus smaller) discount size. Swain, Hanna, and Abendroth (2006) manipulate both discount size and duration and find that for large and small discounts, shorter durations lead to greater feelings of urgency but also greater perceptions of inconvenience. Cheema and Patrick (2008) vary discount size and find that framing a fixed duration as expansive ("anytime") versus restrictive ("only") increases deal evaluations for consumers who are in an implementation, but not a deliberation, mindset.

Notably, prior research focuses on consumers' perceptions of the financial and psychological costs and benefits of the terms of a price discount. However, such a focus may only be appropriate for price discounts whose sizes and durations are consistent with consumers' discount schemas. When discounts are inconsistent with these schemas, consumers may shift attention to the retailer's credibility and motives. Further, existing research ignores potential effects of the retail practice of providing discount rationales. The current research addresses these issues.

2. Theoretical framework and hypotheses

2.1. Schema congruency and theory-of-mind reasoning

While consumers believe that most marketing communications contain useful information (e.g., Obermiller & Spangenberg, 2000), they remain alert for signs of deception. Motivation for such surveillance arises not only from consumers' presumptions that marketers are profit-oriented (e.g., Darke & Ritchie, 2007), but also from a more basic aversion to being taken advantage of by other parties (Vohs et al., 2007). These concerns may be heightened in the domain of price discounts because marketers ostensibly offer to forego profits. The present research integrates theory on schema congruency and theory-of-mind reasoning and proposes that consumers navigate price discounts by initially sensing whether a discount's terms are congruent with expectations and, if sensing incongruence, engaging in reasoning about the retailer's likely motivations or thought processes for providing a discount.

A schema is a cognitive structure that represents one's understanding of an aspect of the world (e.g., Cohen & Murphy, 1984). Because the marketplace is a dominant feature in the social landscape, consumers develop schemas about how the marketplace works (Wright et al., 2005). One schema that consumers acquire early in life is that retailers operate with a profit motive (John, 1999). Paradoxically, a profit