

Effectiveness of Price Discounts and Premium Promotions

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ABSTRACT

Although price discounts are by far the most common form of sales promotions employed by firms, the increasing use of premiums as a promotional strategy may imply that they are occupying a more important place in the promotional strategy. Since price discounts are quite costly and can reduce consumers' reference prices, undermine perception of quality, and hurt brand equity, it is crucial to know what type of promotion is the most preferred and valued by consumers. As the most recent works in the field have argued that the promotional benefit level is an important determinant of promotional effectiveness, this research reports the results of two experimental studies that investigated the interaction effect between promotional benefit level and promotion type across three levels of benefit (low, moderate, high). The results obtained suggest that at high benefit levels price discounts are more effective than premiums, while the opposite occurs at low levels. However, a similar evaluation of promotional tools was found at moderate benefit levels. The findings offer guidance to managers who might benefit from knowing what is the best strategy to promote their products and services. Our work also extends prior related research because, to this date, the effectiveness of price discounts and premiums across promotional benefit levels is an under-researched issue. © 2009 Wiley Periodicals, Inc.

INTRODUCTION

The interest that firms display in using consumer sales promotions is exemplified in the marketing resources allocated to promotional tools. For example, in the 2006 *PROMO* Industry Trends Report, the percentage of executives polled using sales promotions as a part of an overall marketing strategy had grown from 55% in 2004 to 64% in 2005. Among promotional tools, price discounts are the most common form of sales promotions employed (Darke & Chung, 2005). However, premiums are gaining popularity since their use has grown by 12.5% since 2001 (*PROMO* Magazine, 2006), and annual trade shows such as the Premium Incentive Show and the Motivation Show are growing in number.

A premium is simply a product or a service offered free or at a relatively low price in return for the purchase of one or many products or services (d'Astous & Jacob, 2002). Following Chandon, Wansik, and Laurent (2000) and Bodur and Grohmann (2005), premium promotions exclude those that are specific to the monetary value of the current transaction (such as price cuts, coupons, rebates, additional free amount of the same product); rather, it refers to the free gift as opposed to the free product. As such, Bodur and Grohmann (2005) called it a "business gift" because most of the time the company gives something free to consumers, and Larsen and Watson (2001) refer to it as the "gift-giving experience" because they take into account not only the gift and its basic physical properties but also other experiential aspects of the gift giving.

The increasing importance of premiums in the promotional strategy may imply that they are serving as a common alternative to price discounts. If so, managers may be interested in knowing what strategy is best to adopt when deciding how to promote their products. The fact that price discounts are quite costly and can have the deleterious effects in terms of reducing consumer reference prices (Hardesty & Bearden, 2003), undermining perception of quality (Darke & Chung, 2005), and hurting brand image and brand equity (Mela, Gupta, & Lehman, 1997; Yoo, Donthu, & Lee, 2000) means that it is crucial to know what type of promotion is the most preferred and valued by consumers.

From an academic approach, this is an issue that also deserves special consideration. Most of the previous research has focused on the effectiveness of price discounts (see, for example, Chen, Monroe, & Lou, 1998; Chatterjee et al., 2000; Krishna et al., 2002; Kopalle & Lindsey-Mullikin, 2003; Burman & Biswas, 2004; Guéguen & Legohérrel, 2004) or premiums (see d'Astous & Jacob, 2002; d'Astous & Landreville, 2003; Roster, 2006; Chang, 2009), but rarely on both.

The purpose of this paper is to fill this gap by comparing and determining what type of promotion is most effective. More specifically, the most recent works in the field (see Inman, Peter, & Raghubir, 1997; Alford & Biswas 2002; Hardesty & Bearden, 2003; Nunes & Park, 2003; Raghubir, 2004) have argued that the promotional benefit level is one of the most important determinants of promotional effectiveness. Consequently, we developed two experimental studies to investigate the interaction effect between promotional benefit level and promotion type across three levels of benefit. The results obtained provide insights into the research question of which type of promotional framing (price discounts vs. premiums) is the most effective and under which conditions.

To this end, the paper is organized as follows: The next section outlines the theoretical rationale that guides the research hypotheses. This is followed by a

description of the methodology, analyses, and results. Finally, a summary of the findings and their implications for researchers and managers is provided.

CONCEPTUAL FRAMEWORK AND HYPOTHESES

Promotional Framing and Consumer Information Processing

A substantial body of literature on sales promotions uses an information-processing framework to examine how consumers value and respond to them (for a review, see Raghubir, 2006). Studies have illustrated that equivalent promotions can be valued differently depending on, among other factors, the framework used. Promotional actions can be framed as monetary or nonmonetary, and the different type of information provided by them affects both the information processing and the quantity of cognitive resources needed to process it (Nunes & Park, 2003). Assuming that consumers' goal is to minimize the cognitive effort required to making a choice (Bettman, Luce, & Payne, 1998), the promotional framing influences a person's response to the stimulus.

The implications of Prospect Theory Value Function (Kahneman & Tversky, 1979) for sales promotions provide plausible explanations for different consumer reactions to different promotional framings. Based on this theory, consumers perceive a promotion relative to a subjective reference point, (e.g., the reference price of the product). Then it is probable that a monetary promotion would be considered as a reduction in the "loss" because it reduces the purchase price, while a nonmonetary promotion would be viewed as a "gain" obtained in the transaction. The logic of this reasoning is clear. People tend to evaluate price discounts in relative terms because both the purchase price and the change are expressed in monetary terms. However, when consumers are offered a premium, they do not have an accurate understanding of its pecuniary value, which makes it more difficult to discount its value from the product price. This may inhibit consumers' tendency to evaluate the promotion in relation to the focal product, or its price. Therefore, the type of promotion determines the mental accounting conducted, which is a segregate evaluation in the case of premiums, and an integrate evaluation when analyzing price discounts.

These notions of integration or segregation resemble the types of reasoning suggested by Nunes and Park (2003) in a sales promotions context. The use of discounts places a greater emphasis on price, leading people to assess the incentive relative to what they pay (*relativistic and quantitative reasoning*), while premiums take the focus away from price (*absolute and qualitative reasoning*). Consequently, the fact that the promotional framing (monetary or nonmonetary) determines the difficulty of its analysis leads to the conclusion that two promotional tools with an equal promotional benefit are evaluated differently. This interpretation is consistent with the Strategy Compatibility Hypothesis (Fischer & Hawkins, 1993), which suggests that the stimulus may affect the decision strategy employed and, therefore, the decision making. For example, Sinha and Smith (2000) showed that the transaction value for three economically equivalent promotions could be different, being highest for price promotion (50% off), followed by extra-product promotion (buy one, get one free), and finally mixed promotion (buy two, get 50% off).

Promotional Benefit Level and Consumer Information Processing

Different promotional framings (e.g., price discounts or premiums) are not the only factor affecting how consumers judge promotions. The benefit level is also an important characteristic that determines the evaluation of a specific promotion. Grewal, Marmorstein, and Sharma's study (1996) is probably the first to delve into the effect of discount size on consumers' level of processing and hence on consumer reactions in a promotional context. Specifically, these authors suggested an inverted U explanation of consumer information processing regarding consumer reactions to price promotions. Thus, when price discounts are low, consumers are unlikely to process information extensively, since the price promotion has little monetary value. Similarly, when price discounts are high, consumers do not process information extensively, since there is less uncertainty about the merits of the deal. However, in situations where moderate discount levels are involved, there is greater uncertainty regarding the deal, and therefore consumers are expected to process information more elaborately. This premise is also consistent with Thaler's (1985) Silver Lining Principle. It postulates that individuals carry out a specific mental accounting depending on the size of the promotion, and this mental accounting results in the integration or segregation of the benefit derived from the promotion. Several studies have applied this perspective and concluded that, depending on the promotional benefit level, consumers are willing, able, and motivated to expend the cognitive resources necessary to integrate promotional information and product price information (see Diamond, 1992; Chen, Monroe, & Lou, 1998; Hardesty & Bearden, 2003).

Although information processing theories, Prospect Theory, and price acceptability functions have been extensively applied to explain the evaluation of price promotions, little effort has been made to explain how consumers evaluate non-price promotions across different benefit levels, and the existing studies focus on bonus pack as a type of nonmonetary promotion (see Diamond, 1992; Hardesty & Bearden, 2003). However, Peattie (1998) suggests that an extra quantity of the product is a monetary promotion because it is value-increasing, since it manipulates the price–quantity relationship as price discounts do. On the other hand, premium promotions can be considered a nonmonetary stimulus because they are value-adding and they do not manipulate the quantity/price equation. Consequently, we analyze whether consumers have different reactions to alternative promotional offers (price discounts and premiums) at different levels of benefit.

According to Alford and Biswas (2002), outcome variables examined in previous research about promotions have been consumers' perception of value of the deal, buying intention, and consumer's benefits of additional search intention. These three outcome variables are also used in this research as indicators of promotional effectiveness. With respect to the relationship between these variables, buying intention is positively related to overall perception of value. The search intention of other promotions will be contingent on buyers trading off the perceived benefits (promotional benefit) relative to the cost of the search (time, money, effort in conducting the search). Therefore, when consumers value one type of promotion more than another they will manifest a higher buying intention and a lower interest in looking for another promotion, that is, a lower search intention.

Promotional Effectiveness at “Low” Benefit Levels

Consistent with the inverted U explanation of consumer information processing regarding price promotions (Grewal, Marmorstein, & Sharma, 1996), at “low” promotional benefit levels, consumers are not motivated to process information extensively, since price promotions have little monetary value. However, what happens when two alternative promotional offers, a price discount and a premium, are offered to consumers? What promotional tool will be most effective in terms of buyer behavior?

As previously explained, the promotional framing can influence consumers’ responses because premiums are more difficult to process than price discounts insofar as the information provided by these two promotions is presented in different units in relation to the product price. Specifically, premiums are more difficult and require more effort than price discounts to understand because of their incommensurate nature (Nunes & Park, 2003). Alternatively, price discounts require less effort to evaluate because they are expressed in the same monetary terms as the price of the focal product.

According to the Silver Lining Principle proposed by Thaler (1985) from Prospect Theory, it is better to segregate the losses and the gains when the former are large and the latter small. This principle has an important implication for sales promotions because when the promotional benefit (gain) is small relative to the product price (loss), there is a high probability that consumers perceive the promotional stimulus to have a low value as far as they assess the stimulus relative to what they pay (relativistic processing). It might be expected, therefore, that this will happen to price discounts because premiums are more difficult to integrate or analyze in relation to the price. Thus, Nunes and Park (2003) suggest that it may be more prudent to offer something that is difficult to view in a relativistic sense (e.g., a premium) when the promotional benefit level is low. Furthermore, following Ofir’s (2004) price acceptability function, high prices (e.g., those resulting from a low discount) have low levels of acceptability.

Thus, it is expected that at “low” promotional benefit levels premium promotions are more effective than price discounts, especially if consumers do not exert the cognitive effort necessary to assign a monetary value to the premium. More formally:

H1: At “low” promotional benefit levels:

H1a: The perceived value is higher for premiums than for price discounts.

H1b: The buying intention is higher for premiums than for price discounts.

H1c: The search intention is lower for premiums than for price discounts.

Promotional Effectiveness at “High” Benefit Levels

When price discounts are high, consumers are also predicted to be unlikely to process information extensively since there is less uncertainty about the merits of the deal (Grewal, Marmorstein, & Sharma, 1996; Hardesty & Bearden, 2003). In this sense, the relativistic processing elicited by the monetary nature of the stimulus makes it easier, even effortless, for consumers to understand

the deal (Nunes & Park, 2003), to compute the net cost, and to be aware of the high promotional benefit offered. Consequently, the probability that consumers integrate the gain (discount) and the loss (product paid) increases, resulting in a more favorable evaluation of the promotion (Thaler, 1985). Furthermore, according to the Silver Lining Principle, when the gain obtained (price discount or premium) is high in relation to the loss (product price), the evaluation made by consumers will be more favorable when they integrate the gain and the loss, that is, when the promotion is evaluated relative to the price. This will happen to price discounts.

The major effectiveness of price discounts at “high” benefit levels is also supported by the price acceptability function (Ofir, 2004), which suggests that low prices are well accepted by consumers. When applying this function in a promotional context, several studies suggest that high discounts are positively evaluated (Alford & Biswas, 2002; Hardesty & Bearden, 2003; Chandrashekar, 2004; Raghubir, 2004), implying serious concerns about whether price inferences could lead to quality inferences. Therefore, the widely accepted and established notion of an inverted U-shaped price acceptability function may not be sustained in a promotional context.

Furthermore, the monetary savings at this benefit level allow consumers to spend the extra money on buying other products, creating an unexpected psychological income effect (Heilman, Nakamoto, & Rao, 2002) that leads consumers to prefer price discounts.

Hence, based on the previous reasoning, it is proposed that price discounts will be more effective than premiums when the promotional benefit is high.

H2: At “high” promotional benefit levels:

H2a: The perceived value is higher for price discounts than for premiums.

H2b: The buying intention is higher for price discounts than for premiums.

H2c: The search intention is lower for price discounts than for premiums.

Promotional Effectiveness at “Moderate” Benefit Levels

Ozanne, Brucks, and Grewal (1992) suggest that at “moderate” benefit levels consumers have a higher uncertainty about the benefits offered by the promotion, making the decision task more complex (Bettman, Luce, & Payne, 1998). By accepting that consumers’ perceptions are based on the effort they put into a decision (Raghubir, 2006), the rationale of the U-inverted explanation of consumer information processing is expressed in terms of consumers’ willingness to undertake the greatest amount of processing to reduce the uncertainty that is present in situations where the discrepancy level is moderate.

Following Ozanne, Brucks, and Grewal’s (1992) approach, Hardesty and Bearden (2003) and Grewal, Marmorstein, and Sharma (1996) assert that, in these situations, there is greater uncertainty regarding the deal than at low and high benefit levels. As a consequence, consumers are expected to process information more elaborately or thoughtfully. Therefore, what promotions, price discounts or premiums, will be more effective at “moderate” benefit levels? Taking into account that the greater information processing undertaken at this level,

according to the inverted U explanation of consumer information processing, reduces the potential for miscomprehension and skepticism, the result would be a similar evaluation of price discounts and premiums. Indeed, those works that have studied different promotional tools at “moderate” benefit levels have found that they are similarly valued (Hardesty & Beardem, 2003; Nunes & Park, 2003). Therefore:

H3: At “moderate” promotional benefit levels:

H3a: The perceived values for premiums and price discounts are equal.

H3b: The buying intentions for premiums and price discounts are equal.

H3c: The search intentions for premiums and price discounts are equal.

STUDY 1

In Study 1, a 3 promotional benefit level (low, moderate, high) \times 2 promotion type (price discount, premium) between-subjects experimental design was employed. The data for the empirical study were obtained from a controlled experiment involving undergraduate students.

Pretests to the Treatments’ Design

Different pilot studies were conducted to choose the product category to be used and to select the discount levels and the premium.

The first pretest involved 49 subjects, and 9 products were pretested. These products were chips, toothpaste, soap, pudding, coffee, shampoo, soft drinks, pizza, and snacks. Subjects responded to a set of items to measure the hedonic or utilitarian nature and the interest in these products. The hedonic or utilitarian nature of the product was measured with three 7-point semantic differential scales based on Wakefield and Inman (2003). Interest in the product was measured with three 7-point semantic differential items derived from the work of d’Astous and Landreville (2003) (see Appendix I for scale items and Appendix II for further information about the pretest). The nonexistence of gender differences with respect to product evaluations was controlled.

Pizza was finally chosen as the focal product, based on the following criteria: (1) it is of special relevance for the sample used in this study (Alford & Biswas, 2002); (2) it is commonly purchased by the general population (Tan & Chua, 2004); (3) pizza companies often use promotional schemes (Alford & Biswas, 2002); (4) males and females tend to have equal levels of involvement and consumption; (5) it is a product that does not rely on high prices to portray an exclusive image; (6) it is a product of wide enough interest to arouse the interest of consumers; and, finally, (7) it is a product where the amount purchased by consumers can vary, and this allows us to manipulate the quantity of the product to design different promotional benefit levels. The use of a purely hedonic or utilitarian product was deliberately avoided to prevent possible congruencies between the promotion and the product that may enhance one type of promotion over another (Chandon, Wansink, & Laurent, 2000). With respect to the

shopping context, this research did not distinguish between frozen pizzas purchased at a grocery store versus pizzas purchased at a pizza shop.

The second pretest involved 51 subjects and sought to guide the selection of the premium used as a nonmonetary incentive. A total of 12 different premiums were pretested. Four measures were obtained for each premium: attractiveness, value, utilitarian or hedonic nature, and perceived fit between the premium and the main product (pizza). These premiums were: a backpack, a t-shirt, an alarm clock, a mobile phone desk holder, a CD rack, a board game, sunglasses, a mouse pad, a thermo-flask, a pizza cutter, a mug, and a key chain. With respect to attractiveness, it was of interest to select a premium that was neither very attractive nor especially unattractive to avoid the possibility that this characteristic would determine the effectiveness of one type of promotion over another. The fit between the premium selected and the product used in the study was also controlled. The use of a purely hedonic premium was avoided because it could have enhanced the deal by making the benefits congruent (Chandon, Wansink, & Laurent, 2000) and because receiving something people could not justify buying for themselves may have enhanced the attractiveness of the premium (Nunes & Park, 2003). With all these requirements in mind, four premiums (a t-shirt, a CD rack, a backpack, and an alarm clock) were preselected.

One of the most important issues in the methodology was to measure the monetary value that consumers assigned to the premium to make the premium and the price discounts equivalent at different promotional benefit levels. To simplify the design of the experiment, the same premium was offered across benefit levels. Therefore, the price and quantity of the promoted product (pizza) were manipulated with the aim of obtaining a different size of promotion across the three benefit levels. Thus, the aim was that the monetary value of the premium was not too high because that would determine the price and, therefore, the quantity of the product to buy in each condition to obtain the promotional incentive.

Following Nunes and Park (2003), in pretest 2, subjects were asked about the monetary value of the four premiums previously preselected. This procedure was not successful because some of them understood that they were being asked about the market value of the premium and others thought they were being asked about the cost of the premium for the company. To overcome this problem, the third pretest (60 subjects) followed the methodology employed by Diamond (1992), which is based on indifference judgments. Specifically, each subject was asked for the monetary value of each premium that would make it equivalent in desirability to several different levels of discounts. That is, we want to know the amount of money for which the individuals are indifferent between receiving the discount or the premium. Based on this procedure, the CD rack was selected, and the monetary value assigned to it was €2 (see Appendix II).

Finally, the fourth pretest checked that, in every condition (low, moderate, high), the promotional benefits of price discount and the premium were equivalent in size. The specific monetary promotion levels (9%, low; 20%, moderate; 50%, high) were established based on the pretests conducted, previous literature, and a review of price discounts in the marketplace (Inman, Peter, & Raghubir, 1997; Alford & Biswas, 2002; Hardesty & Bearden, 2003; Nunes & Park, 2003; Chandrashekar, 2004; Tan & Chua, 2004). A total of 126 subjects were involved in this pretest. To measure the promotional benefit level, a one-item by 7-point

scale (1 = small to 7 = large) was used, following Hardesty and Bearden (2003). The existence of significant differences between these three levels was checked (see Appendix II).

Measures

The dependent variables used to evaluate promotional effectiveness are perceived value, buying intention, and search intention. All of them were evaluated on a 7-point Likert scale, anchored by “Disagree Strongly” and “Agree Strongly.” Perceived value was measured with seven items based on Chandon, Wansink, and Laurent (2000) and d’Astous and Jacob (2002). The items were as follows: (1) I like this type of promotion; (2) I wish there were more promotions like this; (3) This promotion offer incites me to buy the product; (4) This promotion offer is of great value; (5) This promotion offer is original; (6) This promotion offer pleases me; and (7) This promotion offer interests me. They resulted in a high internal consistency reliability for this construct (standardized coefficient $\alpha = 0.9317$) as well as high item-to-total correlations (all exceeding 0.58), attesting to its convergent validity.

The two-item buying intention measure (anchored by “Very Low” and “Very High”) is based on Grewal, Monroe, and Krishnan (1998). The items were as follows: (1) The probability that I would consider buying this product is; (2) The likelihood that I would purchase this product is. Again, these measures yielded an acceptable internal consistent reliability (standardized coefficient $\alpha = 0.7954$), and their item-to-total correlation were also satisfactory (0.66).

Measures of search intention were adapted from Grewal, Monroe, and Krishnan (1998). Subjects responded to three items: (1) Before making a purchase decision, I would visit other stores to check for similar promotions; (2) Before making a purchase decision, I would need to search for more information about alternative promotions; (3) Before making a purchase decision, I would visit other stores looking for a better promotion. With respect to the internal consistency reliability the standardized coefficient α was 0.8989 and their item-to-total correlation were also satisfactory (all exceeding 0.78).

Finally, premium attractiveness was measured with two items on a 7-point scale, anchored by “Disagree Strongly” and “Agree Strongly,” based on d’Astous and Landreville (2003). The hedonic or utilitarian nature of the premium was measured with one 7-point semantic differential scale based on Kempf (1999). Perceived product–premium fit was assessed using three items on a 7-point scale, anchored by “Disagree Strongly” and “Agree Strongly,” based on d’Astous and Landreville (2003) (see Appendix I for scale items).

Sample and Procedure

To ensure a minimum level of distraction, small sessions of seven subjects on average were run in a tightly controlled laboratory setting. They were 160 undergraduate students enrolled at a major university who participated for an economic reward. Of the subjects, 3.8% opted to purchase based on some promotional tool always, 36.9% often, 58.8% sometimes, and only 0.6% never. They were randomly assigned to a product–promotion combination. Table 1 reports the cell sizes, indicating the number of respondents in each cell, and summarizes the details of the different promotions.

Table 1. Promotional Conditions.

Condition	Benefit Level	Cell Size	Description of Promotions
Price discounts	Low	25	Big pizza (6 portions): regular price = €20.78; discount = 9%
	Moderate	25	Medium pizza (4 portions): regular price = €9.35; discount = 20%
	High	21	Small pizza (2 portions): regular price = €3.74; discount = 50%
Premiums	Low	26	Big pizza (6 portions): regular price = €20.78; premium promotion = CD rack
	Moderate	29	Medium pizza (4 portions): regular price = €9.35; premium promotion = CD rack
	High	34	Small pizza (2 portions): regular price = €3.74; premium promotion = CD rack

Subjects were given a description of the promotional offer (e.g., the percentage of discount or the premium) and viewed it for a few minutes. After reading the offer, they completed the response booklet with the question concerned with the dependent variables, several measures assessing potential alternative explanations for our results, and a series of demographic variables.

Manipulation Checks

To avoid the possibility that the subjects’ own responses to the dependent measures may bias their reaction to the subsequent manipulations (Kidd, 1976), the manipulation checks were omitted from the experimental groups in the main study. Consequently, we conducted a pilot study to check the manipulation, and the dependent variables were omitted. Following the methodology proposed by Kidd (1976), manipulation check groups (one for each treatment condition) were created with the purpose of assessing the success of the manipulation.

A total of 102 subjects participated in this pilot study. The one-item promotional benefit level manipulation check employed by Hardesty and Bearden (2003) was included for both conditions (price discount and premium). An ANOVA indicated that for price discounts the perceived benefit varied across levels ($F_{2,43} = 22.718, p < 0.001$). Each pairwise comparison was significant (Scheffé test < 0.05 ; $X_{low} = 2.50, X_{moderate} = 3.70, X_{high} = 5.05$). Similarly, an ANOVA indicated that for the premium offer the perceived benefit varied across levels ($F_{2,53} = 25.595, p < 0.001$). The post-hoc test showed that the pairwise comparison was also significant (Scheffé test < 0.05 ; $X_{low} = 2.60, X_{moderate} = 3.50, X_{high} = 4.52$).

Finally, following Sinha and Smith (2000), the credibility of each promotional scenario was tested with a 7-point semantic differential scale with endpoints of “Not Believable” and “Believable.” The promotional conditions were perceived as believable (overall mean = 5.10). Each of the individual promotional evaluations exceeded the neutral point, and the credibility ratings ranged from 4.68 to 5.62.

Hypothesized Effects

To test the hypotheses, an ANOVA was conducted for each dependent variable, focusing on the interaction between promotion type and promotional benefit level. After that, the simple effects driving the interaction were obtained. The effect size (Cohen’s *d*) was computed to reflect the magnitude or strength of the relationship because the measure of effect size is not affected by sample size and allows comparison across studies.

The ANOVA including perceived value as dependent variable, and promotion type and benefit level as independent factors indicated significant main effects of promotion type ($F_{1,159} = 4.346, p = 0.039$) and benefit level ($F_{2,159} = 14.192, p = 0.000$). However, the interaction between the two experimental factors was not significant ($F_{2,159} = 0.341, p = 0.712$). To assess whether there is empirical evidence for H1a, H2a, and H3a, comparisons across promotional benefit levels were performed. Table 2 displays the results of simple effects tests for promotion type.

H1a posits that premiums generate a higher perceived value than price discounts at “low” benefit levels, but the results reveal no significant differences in the groups’ response in the sense proposed ($F_{1,49} = 0.814, p > 0.10; d = 0.25$). When the benefit offered is high, H2a posits that price discounts generate a higher perceived value than premiums, and the *F* test on the means shows that the differences between them are significant ($F_{1,53} = 4.580, p = 0.037; d = 0.59$). At “moderate” levels (H3a), price discounts and premiums were predicted to be similarly valued, and the results reflect this prediction ($F_{1,52} = 0.545, p > 0.10; d = 0.20$). The plot of the means of perceived value across benefit levels is shown in Figure 1. Overall, the results suggest that price discounts and premiums are

Table 2. Means, Standard Deviations, and Test of Significance.

Promotion Type	Promotional Benefit Level								
	H1 Low			H3 Moderate			H2 High		
	Mean	<i>SD</i>	<i>n</i>	Mean	<i>SD</i>	<i>n</i>	Mean	<i>SD</i>	<i>n</i>
<i>Perceived value</i>	H1a			H3a			H2a		
Price discounts	3.69	1.10	25	3.91	1.24	25	5.02	0.67	21
Premium	3.36	1.50	26	3.67	1.19	29	4.41	1.20	34
<i>F</i>	0.814			0.545			4.580		
Sig.	0.371			0.464			0.037		
<i>Buying intention</i>	H1b			H3b			H2b		
Price discounts	3.50	1.15	25	4.24	1.51	25	4.97	0.99	21
Premium	4.23	1.11	29	3.82	1.18	29	4.27	1.18	34
<i>F</i>	5.284			1.261			5.074		
Sig.	0.026			0.267			0.028		
<i>Search intention</i>	H1c			H3c			H2c		
Price discounts	4.49	1.65	25	4.49	1.47	25	3.49	1.86	21
Premium	3.52	1.37	26	3.57	1.63	29	3.47	1.43	34
<i>F</i>	5.198			4.659			0.002		
Sig.	0.027			0.036			0.962		

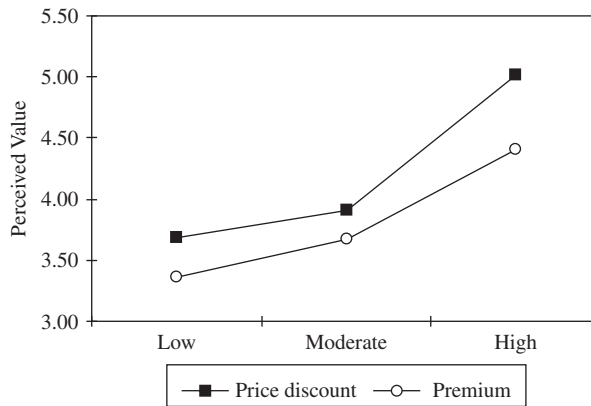


Figure 1. Interaction plot of promotion type and benefit levels for perceived value.

valued similarly at both “low” and “moderate” promotional benefit levels, while price discounts are more valued when high promotional benefit levels are employed. Although the interaction effect was not significant, H2a and H3a were empirically supported through the simple effects.

An ANOVA of buying intention on the two treatment factors reveals significant main effects of promotional benefit level ($F_{2,159} = 5.730, p = 0.004$), while for promotion type the effect is not significant ($F_{1,159} = 0.430, p = 0.513$). But more importantly, the interaction term was significant ($F_{2,159} = 5.067, p = 0.007$). The buying intention means across different treatment variables are also shown in Table 2. In accordance with the predictions of H1b (“low” benefit level), the results reveal a significant difference in the groups’ responses, showing that premiums generate a higher buying intention than price discounts ($F_{1,49} = 5.284, p = 0.026; d = 0.64$). At “high” benefit levels (H2b), price discounts generate a higher buying intention than premiums do, giving empirical support to H2b ($F_{1,53} = 5.074, p = 0.028; d = 0.63$). Finally, as predicted in H3b, individuals manifested no significant differences in their buying intention ($F_{1,52} = 1.261, p > 0.10; d = 0.31$). Figure 2 depicts the buying intention means across the different treatment conditions.

Regarding the effectiveness of promotions in terms of search intention, the ANOVA reveals a significant main effect for promotion type ($F_{1,159} = 6.482, p = 0.012$), while the main effect for promotional benefit level ($F_{2,159} = 2.082, p = 0.128$) and the interaction effect ($F_{2,159} = 1.511, p = 0.224$) are not significant. In order to assess whether some of the hypothesized effects in H1c, H2c, and H3c are supported, comparisons across benefit levels were performed. At “low” benefit levels, H1c posits that the search intention of other promotions will be lower for premiums than for price discounts, which finds statistical support ($F_{1,49} = 5.198, p = 0.027; d = 0.64$). At “high” benefit levels, the ANOVA analysis did not provide statistical support ($F_{1,53} = 0.002, p > 0; d = 0.01$) for H2c, which posits that the search intention will be lower for price discounts. A possible explanation of this result may be the fact that at “high” benefit levels consumers are not motivated to search other promotions because they might perceive that the benefit offered is good enough. Finally, the results also fail to support H3c because

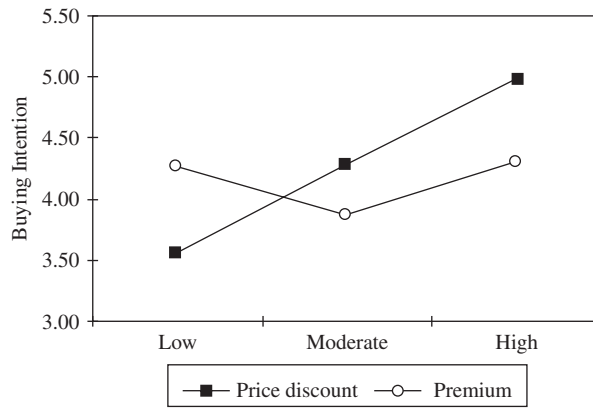


Figure 2. Interaction plot of promotion type and benefit level for buying intention.

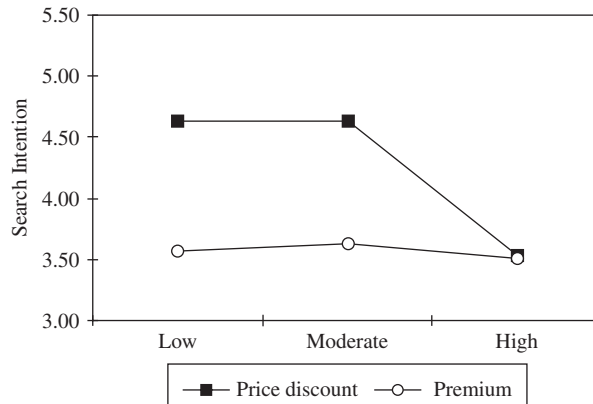


Figure 3. Interaction plot of promotion type and benefit levels for search intention.

at “moderate” benefit levels the search intention is higher when subjects are exposed to a price discount ($F_{1,52} = 4.659, p = 0.036; d = 0.59$).

Overall, the results suggest that search intention is higher when consumers are exposed to low and moderate discounts. Thus, although the interaction effect was not significant, empirical support was found for H1c but not for H2c and H3c through the simple effects. The plot of the search intention means across different values of the treatment conditions is shown in Figure 3.

To summarize, at “low” benefit levels the hypothesized effects about buying intention (H1b) and search intention (H1c) were empirically supported, while there was no significant difference for perceived value (H1a). With respect to “high” benefit levels, it was observed that price discounts generate a higher perceived value (H2a) and buying intention (H2b), while there were no differences for search intention (H2c). Finally, at “moderate” benefit levels, where an equal effectiveness between the two types of promotion was expected, hypotheses about the perceived value (H3a) and buying intention (H3b) were supported, but H3c (search intention) was rejected.

STUDY 2

To assess the robustness of the findings and further test the hypotheses, the first experiment was replicated with a different product category. The procedures used in Study 2 were similar to those employed in Study 1.

Based on the pilot study conducted in the first experiment, a soft drink was chosen as the focal product to be used because it also fulfils the characteristics described in the methodology section. The premium used was a CD rack. The fit between soft drinks and the premium did not differ with respect to the previous product (pizza), so that the results would not be affected by the different fit of both products with the same premium.

Before the main study, a pilot study was conducted with 87 subjects to control the manipulation check. The ANOVA indicated that for price discounts, the perceived benefit varied across promotional benefit levels ($F_{2,42} = 27.605, p < 0.001$). Each pairwise comparison was significant (Scheffé test < 0.05 ; $X_{\text{low}} = 3.44$, $X_{\text{moderate}} = 4.56$, $X_{\text{high}} = 5.95$). Similarly, an ANOVA indicated that for the premium offer the perceived benefit varied across promotional benefit levels ($F_{2,39} = 20.571, p < 0.001$). The post-hoc test showed that the pairwise comparison was also significant (Scheffé test < 0.05 ; $X_{\text{low}} = 2.72$, $X_{\text{moderate}} = 3.78$, $X_{\text{high}} = 4.80$).

A total of 180 subjects participated in this second experiment. The same experimental design was used: 3 promotional benefit levels (low, moderate, high) \times 2 promotion types (price discounts and premiums).

First, the interaction effect between the two experimental factors was not significant ($F_{2,179} = 0.481, p = 0.619$). Regarding the analysis of the simple effects for perceived value, with respect to H1a, the results are similar to those obtained previously because at “low” benefit levels premiums did not generate a higher perceived value than price discounts ($X_{\text{discount}} = 4.14$, $X_{\text{premium}} = 3.81$; $F_{1,55} = 1.712, p = 0.196$). H2a posited that price discounts generate a higher perceived value than premiums, and the result supports it ($X_{\text{discount}} = 4.74$, $X_{\text{premium}} = 4.12$; $F_{1,62} = 4.407, p = 0.040$), consistent with the result obtained in study one. At “moderate” benefit levels, price discounts and premiums were valued similarly ($X_{\text{discount}} = 4.21$, $X_{\text{premium}} = 3.97$; $F_{1,57} = 0.691, p = 0.409$), giving support to H3a. These results mirror those obtained in the first study.

With regard to buying intention, the ANOVA on the two treatment conditions reveals no significant effect for the interaction between them ($F_{2,180} = 2.294, p = 0.104$). Thus, at “low” benefit levels (H1b), no empirical support was obtained for the hypothesized effect and the result obtained in the first study ($X_{\text{discount}} = 4.39$, $X_{\text{premium}} = 4.00$; $F_{1,55} = 1.248, p = 0.269$). However, at “high” levels, the results give support for H2b because price discounts generate a higher buying intention ($X_{\text{discount}} = 5.01$, $X_{\text{premium}} = 4.28$; $F_{1,62} = 4.562, p = 0.037$), validating those obtained previously. Finally, regarding the “moderate” benefit level, the findings obtained in the first study were also corroborated because no differences were found in buying intention between the two promotional tools ($X_{\text{discount}} = 4.30$, $X_{\text{premium}} = 3.88$; $F_{1,58} = 1.242, p = 0.270$).

Finally, the results obtained for search intention show that the interaction effect was not significant ($F_{2,180} = 0.287, p = 0.751$), and therefore the pattern of responses did not differ across different benefit levels. Analyzing the simple effects, at “low” benefit levels the search intention of other promotions was higher for price discount than for premium ($X_{\text{discount}} = 3.83$, $X_{\text{premium}} = 3.07$; $F_{1,55} = 4.218, p = 0.045$). This result corroborates those obtained in the first study. The results

also mirror those obtained previously because no differences in search intention were found at high benefit levels ($X_{\text{discount}} = 2.91$, $X_{\text{premium}} = 3.18$; $F_{1,62} = 0.683$, $p = 0.412$). Finally, at “moderate” benefit levels the second study supports the hypothesized effect in H3c ($X_{\text{discount}} = 3.34$, $X_{\text{premium}} = 2.88$; $F_{1,58} = 1.675$, $p = 0.201$) because the results reveal that the search intention for other promotions was equal for the two types of promotion.

To summarize, this second study corroborates most of the results obtained in the first one. Specifically, at “low” benefit levels, H1c (search intention) was validated. At “high” benefit levels, the results mirror those obtained previously, again giving support to H2a and H2b. Finally, at “moderate” benefit levels, this second study gives empirical support to the hypothesized effects for H3a, H3b, and H3c, while the first study did not validate H3c.

DISCUSSION

Marketers spend an enormous amount of time finding out what consumers really want and what promotions will be most effective. Given the very large expenditures allocated to sales promotion tools, understanding what strategy to use for a given promotional cost/value remains important. Thus, one of the basic decisions confronting a manager, when implementing a promotion, is the type of promotion to be used and the benefit to be offered to consumers. Therefore, it is a very relevant issue for both academics and researchers to understand what promotional tool (monetary vs. nonmonetary) works better at a given promotional benefit from the perspective of consumers’ reactions. In this sense, one of the most interesting contributions of this research is that, even between two equivalent promotions, “low” and “high” benefit levels can lead subjects to infer different values for monetary and nonmonetary promotions.

Specifically, the results obtained show that premiums are more effective when the promotional benefit offered is low (H1). Although no differences between the perceived value of price discounts and premiums were found, we found that buying intention is higher for premiums (only in Study 1) and therefore individuals show a higher search intention when they are exposed to discounts. The partial support obtained for H1 may be explained by the fact that although in relative terms the discount is low (9%), considering that the product price is high (€20.78), the absolute saving that consumers can obtain is close to €2. This discount may be considered important by consumers, which may lead to the conclusion that price discounts and premiums were valued in the same way. This result is consistent with that obtained previously by Chen, Monroe, and Lou (1998), suggesting that the product price (high vs. low) determines the best way of framing a promotion, as, for example, in percentage versus dollar terms.

In contrast, when the promotional benefit is high (H2), the findings indicate that price discounts are more effective than premiums because they are valued more (H2a) and generate higher buying intentions (H2b). However, individuals did not show a higher search intention for premiums (H2c). Taking into account that search intention is contingent on buyers trading off the perceived promotional benefit relative to the cost of the search (time, money, effort spent in conducting the search, etc.) (Grewal, Monroe, & Krishnan, 1998), the underlying reason for

this result may be that the benefit perceived for both promotions is good enough and that buyers do not want to invest the necessary effort to find other promotions.

Finally, the findings support those obtained previously by other authors such as Hardesty and Bearden (2003) and Nunes and Park (2003), who proposed a similar evaluation of promotional tools at “moderate” benefit levels. No differences between the perceived value and buying intention for price discounts and premiums (H3a, H3b) were found. However, there is partial support for the hypothesis on search intention (H3c), because only the first study found that it was higher when individuals were exposed to price discounts. In general, the results obtained were consistent across both product categories tested.

With respect to the implications derived from the results obtained, the first thing to be noted is the complexity of the sales promotion evaluation, because the pattern of response is not equal for all dependent variables. If usually complex processes are at work in the formation of consumers’ attitudes toward products and their development of purchase intentions (Voss, Spangenberg, & Grohmann, 2003), the evaluation of promotional offers is not going to be an exception. This suggests that the different responses to nonmonetary and monetary promotions are not simple assessment of value—gains and losses—but are more complex than that. In fact, the “search intention” variable behaves in a different way than the other two dependent measures. Thus, promotion evaluation in terms of perceived value and buying intention could be more or less positive, but why are consumers reluctant to find a superior offer? The possible explanation for this could be that search intention behavior implies the buyer’s willingness to search for additional promotional information (e.g., they need to visit other supermarkets to find the product in better promotional conditions). As search intention depends on the trade-off between the perceived benefit and the costs of the search (Marmorstein, Grewal, & Fishe, 1992), only in those cases in which the promotional benefit is not enough will consumers be prone to invest the effort required to find a better promotion. That is, consumers make more effort to look for other promotions when the benefits of doing so are greater and the costs associated with the effort are lower. In this sense, the results report that for low and moderate price discounts individuals are prepared to invest the necessary resources to look for other promotional offers.

Second, the circumstances under which a consumer will integrate or segregate the gains and losses derived from the promotion were also determined, that is, how the promotional information will be processed. As has been shown, this is a function of the type of promotion (price discount or premium) and the benefit level (low, moderate, high). Thus, when the promotional benefit (gain) is small relative to the product price (loss), consumers’ evaluation will be better if they conduct a segregate evaluation, and this happens for premium promotions. In contrast, at “high” benefit levels, where the gain relative to the loss is large, it is better to integrate them, and this happens for price discounts. Finally, for “moderate” benefit levels, the utility of the promotion will be the same for price discounts and premiums, which implies that it does not matter whether the gains and the loss are segregated or integrated. This pattern of results follows the Silver Lining Principle. Furthermore, the current results support the approach proposed by Nunes and Park (2003), but not tested by them, because they suggest that there may be situations when it is better to encourage relativistic processing, which probably happens when the incremental gain by

proportion is relatively large. That is, if the benefit offered by the promotion is high it is better to frame it as a price reduction.

However, as Hardesty and Bearden (2003) suggested, future research is needed to determine whether the benefit associated with high price discounts outweighs the deleterious effect related to constant price reductions. It would also be important to observe how reference prices do indeed change after repeated implementations of price discounts (Sinha & Smith, 2000). In this sense, a potential limitation of using high price discounts may be that consumers can infer the cost structure and normal margins of a product from the presence of promotions (Raghubir, 2006). For example, if a manufacturer has offered a high discount of 50%, consumers would infer that the manufacturer was covering production costs and that margins were actually greater than 50%. Judgments of fair price may be based on such cost and margin beliefs, and consumers may be unwilling to pay full price in the future.

The results reported here may have profound implications for managers because they offer guidelines for improving promotional strategies. First, they have to consider that the allocation of the promotional budget to price discounts or premium promotions may have different consequences in terms consumers' evaluation. Overall, the current results suggest that the selection of one tool over another should depend on the promotional benefit level offered. Thus, marketers have to take into account that consumers value a "high" price discount more than an equivalent premium but also that, as Raghubir (2006) suggests, sometimes consumers may purchase a product on sale because it is on sale, rather than because of the cost savings of the sale. This may incline managers to avoid offering an unnecessarily high discount. On the other hand, when the discount is small, consumers will prefer a premium promotion. However, if the regular price is high and the consumers are aware of it, a small percentage of discount may mean a big saving to consumers, and hence the superiority of premiums at this level may be annulled. Finally, because price discounts and premiums are equally effective at moderate benefit levels, marketers should consider the consequences of these tools in other issues (e.g., brand image), and take into account the short- and long-term objectives of the company.

The current study represents a small step toward understanding consumers' response to sales promotions and therefore the effectiveness of different promotional tools. This research investigates just one type of monetary and non-monetary promotion, price discount and premium. However, due to the high number of promotional tools (e.g., bonus pack, sweepstakes, and so on), it is possible that these results may not generalize to other tools. Therefore, future research is needed to identify how different promotional tools work. For example, with respect to premium promotions, several authors (Larsen & Watson, 2001; Bodur & Grohmann, 2005) have posited that the study of the nature of the premium offered (e.g., hedonic or utilitarian) is of special relevance because it can influence the evaluation of a promotional offer and determine the arousal of affective and cognitive responses in the evaluation process.

In addition, it is possible that other factors not explicitly measured had an impact on the results. There are several other variables that may significantly affect consumers' response and provide avenues for future research. In this sense, variables related to consumer behavior, such as sales proneness (DeVecchio, 2005), price consciousness (Palazon & Delgado, 2009), affective state of consumers (Chang, 2009), or consumers' belief in luck (Prendergast & Thompson, 2008),

can moderate the relation between the promotion's characteristics (type of promotion and benefit level) and the outcome variables. In particular, the study of consumer sales proneness could be of special interest because, as DelVecchio (2005) suggests, it is related to promotional information processing.

In conclusion, it should be noted that the evaluation of promotional offers is far too complex to be examined in a single study. However, it is hoped that this discussion provides a reasonable contribution to sales promotion literature. Using a consumer information-processing approach, this work contributes by making the consumer's response to sales promotions a more accessible and understandable behavior.

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APPENDIX I

Scale Items: Hedonic or utilitarian nature of the product category ($\alpha = 0.946$)

“Think of the situation in which each product is typically used”:

- Practical purpose/just for fun
- Purely functional/pure enjoyment
- For a routine need/for pleasure

Scale Items: Interest in the product category ($\alpha = 0.920$)

- Does/does not interest me
- Does/does not count for me
- Means a lot/nothing to me

Scale Items: Premium attractiveness ($\alpha = 0.872$)

- This premium interests me.
- This premium pleases me.

Scale Items: Hedonic or utilitarian nature of the premium

“Would you characterize the premium as primarily a functional gift or an entertainment/enjoyable gift?”

- Primarily for functional use/Primarily for entertainment use

Scale Items: Perceived product-premium fit ($\alpha = 0.909$)

- This premium is appropriate for the product.
- This premium is a logical choice for the product.
- There is a good association between the premium and the product.

APPENDIX II

Table A. Pretest 1

Product categories	Hedonic/Utilitarian Nature		Interest	
	Mean	SD	Mean	SD
Chips	4.80	1.50	4.09	1.24
Toothpaste	1.42	0.69	1.84	1.17
Soap	1.55	0.75	1.97	0.99
Yogurt	4.35	1.29	3.38	1.11
Coffee	4.00	1.79	4.66	1.83
Shampoo	1.47	0.66	1.96	0.99
Soft drinks	4.65	1.63	4.02	1.45
Pizza	4.86	1.59	4.02	1.47
Snacks	5.50	1.33	4.40	1.35

Table B. Pretest 3

Premiums	Monetary Value (€)		Attractiveness		Product–Premium Fit	
	Mean	SD	Mean	SD	Mean	SD
T-shirt	3.30	0.96	4.46	1.40	4.31	1.37
CD rack	2.00	0.96	3.96	1.35	4.11	1.31
Backpack	3.46	1.27	4.47	1.67	4.01	1.54
Alarm clock	2.07	1.12	2.96	1.65	2.62	1.31

Table C. Pretest 4

	Promotional Benefit Level			Post-Hoc	
	Low	Moderate	High	Low–Moderate	Moderate–High
Price discount	1.95	3.60	5.10	0.002	0.001
Premium	2.50	3.45	4.47	0.860	0.016

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