

## The Three Faces of Consumer Promotions: Economic, Informative, and Affective

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*Sales promotions targeted at consumers (e.g., coupons, sweepstakes, free offers, etc.) form a large and growing part of the marketing budget worldwide. The key managerial questions regarding sales promotions today are: a) Are they increasing profits to their maximum potential? b) Are they as profitable as they might be? c) Can this be achieved through their design and communication? and d) What are their long term effects? In this article we propose a framework that examines the effect of managerially controllable actions, specifically, designing and communicating a sales promotion, on increasing the incentive for different segments of consumers to purchase a product. We develop an integrative model that theorizes that sales promotions have three distinct aspects: (i) An economic aspect that provides an immediate monetary economic incentive as well as non-monetary incentives such as saving time and effort to make a decision, along with immediate and longer-term disincentives to purchase a brand; (ii) An informational aspect that consumers use as a cue (e.g., a need reminder) or as the basis to draw inferences; and (iii) An affective aspect that impacts how consumers feel about their shopping transaction, including both positive as well as negative feelings. We suggest that the manner in which a promotional offer is designed and communicated differentially impact both its information value and its affective appeal and accordingly, enhance or diminish the attractiveness of the offer beyond the economic incentive it provides. Such a conceptualization can help managers design and communicate consumer promotions more efficiently as well as more effectively. The overall idea is that companies' promotion strategies should attempt to maximize the positive informative and affective aspects, as these can lessen the need for a large economic (e.g., face value) incentive and thereby increase the promotions' profitability.*

Consumer promotions now account for almost a quarter of the marketing budget of consumer product companies<sup>1</sup>. From the consumer point of view, this means that consumers are being bombarded by consumer promotions aimed at persuading them to purchase and purchase *now*. In 2001, an estimated 239 billion coupons<sup>2</sup> were distributed in the U.S. and consumers redeemed 4 billion of these - an exposure rate of over 2,000 coupons per household per year, or nearly 6 coupons per day! To put this in perspective, coupons are just one of a variety of consumer promotions tools used by manufacturers and retailers to induce trial, encourage repeat purchase, or induce brand

switching. Other common forms of promotions include sweepstakes, competitions, price discounts around calendar events (e.g., Christmas Sale, President's Day Sale), annual discount events by manufacturers or retailers (e.g., semi-annual Nordstrom's sale), free gifts, free samples, trial packages, and membership rewards.

Companies are becoming increasingly creative in the types of promotions that they are offering consumers. The range, variety, and depth of discounts flooding the marketplace today suggest that processing these is far from an easy task for consumers. Apart from the amount of money that companies are spending on these activities, the volume of sales

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promotions begs the question: How do consumers blitzed by promotional stimuli multiple times a day, 365 days a year, react to these promotional stimuli? The consumer is being bombarded by a range of promotions in almost every product category, in every media form: TV, radio, newspapers, mail, point of purchase material, the internet, and email. Most promotions carry an economic incentive to purchase a specific brand, purchase it now, or purchase more of it. Despite the economic incentives offered by promotions, it is clear that consumers will be unable to take advantage of every offer that they receive. This article delineates three ways through which a promotion affects a consumer, and provides guidelines to manufacturers and retailers to design more effective promotions.

Promotions may no longer represent simply an economic incentive to purchase, but also have other effects on consumers' deal evaluations (positive or negative attitudes towards a consumer promotion) and purchase intentions – only some of which may be intended by the manufacturer or retailer. Other effects, positive or negative, may be completely unintentional and managers may not be aware of them. Conceptualizing the multiple routes through which a consumer promotion exerts an influence on consumers allows practitioners to consider such factors when designing a promotion. For example, it is not entirely clear that higher deal values necessarily lead to higher purchase intentions. This implies that a poorly designed deal can inadvertently exert a deleterious effect on profits, as the same (or lower) level of sales are achieved, but at a lower margin. This paper discusses these intentional and unintentional effects, and how knowledge of these allows a manager to minimize negative effect or leverage positive effects.

A consumer promotion is a short-term incentive targeted directly at consumers and includes coupons, rebates, free offers, patronage rewards and others. This is in contrast to trade promotions that are financial incentives offered to retailers by manufacturers in return for sales promotions such as features, displays, or temporary price reductions. Consumer promotions can be considered as “pull”

promotions in that they directly entice the consumer to purchase the product, thereby pulling the brand through the channel. Trade promotions can be considered as “push” promotions in that they provide incentives for the retailer to offer special deals and push the product through the channel. The key managerial questions regarding consumer promotions today are:

- a) Are they increasing sales to their maximum potential (*e.g.*, can coupon redemption rates be increased without affecting the manufacturer's or retailer's margins)?
- b) Are consumer promotions as profitable as they might be (*e.g.*, can coupon values be lowered without affecting redemption rates)?
- c) How sensitive is customer response to the design and communication of the sales promotion (*e.g.*, are certain types of promotions more appropriate in certain circumstances)?
- d) What are the long-term effects of sales promotions (*e.g.*, do they lead to a larger customer base, or may they erode brand equity by increasing price sensitivity)?

In the early stages of their popularity, consumer promotions typically had a positive short-term impact on brand sales<sup>3</sup>. Studying the reasons contributing to sales increases is important not only to assess the profitability of promotional efforts, but also to understand the sales patterns for the brand after the deal has been retracted. Consumer promotions increase short-term sales both to new and existing customers. Nearly half of coupon redemptions are by new customers, with this percentage increasing as coupon face values are higher (as higher values provide new customers a greater incentive to switch brands) and decreasing with the market share of the company (as there are fewer buyers who are available to switch)<sup>4</sup>. However, this increase may be temporary as brand switchers may be deal loyal and will follow the next deal that comes along<sup>5</sup>.

Sales may also increase as a result of existing customers purchasing more products (stockpiling) or accelerating purchases. One study of 175 large-scale promotions found that

sales increases were primarily from existing customers<sup>6</sup>. Unless these customers who have larger inventory increase their levels of consumption<sup>7</sup>, they would be less likely to continue to buy the brand after the deal was retracted. Promotions may also encourage sales of complementary or other-related products (e.g., a coupon for cake mix might also spur frosting sales)<sup>8</sup>. The various routes for sales increases from promotions are summarized in Figure 1.

Reviews of the manner in which promotions work from the consumer point of view are valuable as they supplement the understanding of the manner in which these promotions work from the manufacturers and retailers points of view<sup>9</sup>.

**Figure 1: Main Sources of Sales Increases from a Promotion**

	Existing customers	New customers
Promoted products	<ul style="list-style-type: none"> <li>• Increase purchase quantity for stockpiling, leading to increase in consumption</li> <li>• Increase or accelerate purchase frequency</li> <li>• Reduce brand switching and retain existing customers</li> </ul>	<ul style="list-style-type: none"> <li>• Increase purchase by brand switchers</li> <li>• Increase primary demand for category</li> <li>• Increase purchase by store switchers</li> </ul>
Non-promoted products	<ul style="list-style-type: none"> <li>• Use complements</li> <li>• Spillover brand effects</li> </ul>	

The Chandon, Wansink and Laurent model (CWL) proposes that sales promotions provide utilitarian benefits including savings, quality, convenience, and hedonic benefits including value expression, exploration, and entertainment. In this paper, we build on the CWL framework, incorporating additional utilitarian benefits (referred to as economic benefits) and affective benefits (including additional hedonic benefits and negative affective benefits). We also explicitly address the informative effects of promotions – that is, the ways in which a promotion signals something

about the brand or the industry to the consumer.

Our theoretical model proposes that a sales promotion positively and negatively influences consumers through three different routes:

- a. Changing the economic utility associated with a product purchase--*the economic route*
- b. Influencing consumer's beliefs about the brand or industry--*the informative route*
- c. Affecting the feelings and emotions aroused in the consumer--*the affective route*

For example, consider a \$0.50 coupon for potato chips. The coupon may simultaneously reduce the purchase cost of a bag of chips (positive economic effect), simplify the consumer's decision as to which brand of chips to purchase (positive economic effect of reducing information processing costs of time and effort to make a decision), make the consumer buy more and eat more chips than s/he typically would (negative economic effect), make the consumer believe that chips are overpriced (negative industry-related informative effect), make the consumer believe that s/he doesn't really like the taste of the chips (negative product-related informative effect), make the consumer feel smart (positive affect), but also feel irritated at having to clip the coupon and take it to the supermarket which irritation may translate to the brand (negative affect).

This implies that if a company wishes to encourage trial of its brand of potato chips, it should weigh positive effects against potential negative repercussions when deciding whether or not it should spend its marketing budget on consumer promotions versus other marketing tools such as advertising or trade promotions. If it decides to proceed with a consumer promotion, such an analysis will help it decide on its promotional tools and tactics. Attention to the factors discussed here can help make a promotional offering more effective in achieving the company's objectives and may assist in doing so at a lower cost. Given the explosion of consumer promotions, the fine tuning of promotional offers may well be the route to make this tool an efficient tactic and allow promotions to realize greater profitability. By disentangling the routes through which a sales

promotion can affect final sales, a manager should be able to reduce its negative effects.

### **The Three Routes of Promotional Effects**

As mentioned above, the effect of sales promotions on brand sales in the short run has typically been found to be non-negative. We argue that the final effect on sales is a combination of positive and negative economic, informative, and affective effects. As the positive effects may dominate the negative effects, the net short-term effect may be positive, though results may differ in the long-term, when the strength of the positive effects diminish and the net effects are driven by possible continuing negative effects. Below, we discuss how the three routes affect consumers' evaluations of deals.

#### **A. Economic Route**

Economic effects pertain to a monetary or non-monetary (time and effort) gain or loss that a consumer promotion provides to the consumer. Obviously, the most prevalent source of economic effect (and in many cases the only factor considered in promotion design) is the face value of the coupon, the amount of the rebate, or the grand prize in a sweepstakes. However, non-monetary benefits can accrue as well, such as decreasing the transaction time or effort required for a consumer to make a decision by simplifying the decision process (*i.e.*, providing a good reason to buy). The CWL framework incorporates these non-monetary costs under the construct of "convenience," defined as the increased shopping efficiency attributable to reduced search costs in identifying the product required, reminding consumers of a need, and reducing decision costs by providing easy to use heuristics as a decision aid.

The combined effects of monetary and non-monetary savings not only lower the unit cost of consumption, but also either reduce the total outlay (overall expense), increase the overall amount purchased at the same cost, or increase the variety in the shopping basket. However, there are some possible hidden costs of these economic incentives as well. These include costs of stockpiling, increased consumption, increased search time required to find the best deal or even delayed purchases in

wait for a promotional offer. Longer-term non-monetary costs could include a reduced choice set as customers make sub-optimal purchase decisions to avail of loyalty type rewards or if promotions serve to maintain premium prices as national brand cooperate implicitly to defend market share versus private label competitors<sup>10</sup>. Thus, even economic effects may be negative. Figure 2 outlines the economic routes through which promotions affect sales. The monetary and time and effort benefits are all short-term, while the monetary costs tend to be longer-term.

#### **B. Informational Route**

We define information effects as the communication of direct or inferential knowledge derived from exposure to a promotion.

Informational effects of a consumer promotion pertain to the information conveyed via the promotion that signals unknown aspects of the brand or industry to the consumer. While monetary savings are relatively self-explanatory, coupons can also serve an advertising or awareness role. This increased awareness has been shown to lead to incremental purchases by households that do not redeem the coupon as the coupon itself serves as a reminder<sup>11</sup>. Consumer promotions can also lead consumers to generate inferences that they might not otherwise have drawn in the absence of the promotion. This is because consumers assign causes for managerial actions and infer missing information from information that is contextually available. There is support for both processes in the research on promotions<sup>12</sup>.

Price expectations, quality expectations and promotional patterns are the most common inference-based informational effects of promotions. A price promotion can affect perceptions of the price of the product by influencing what prices consumers expect to see<sup>13</sup>, what they believe they did see<sup>14</sup>, what they infer actual prices are<sup>15</sup>, and what they believe is a good price. In fact, price promotions may lead to lower reference prices for that brand as compared to one that is not promoted and may backfire in the long run if the promotional price becomes the reference price against which the regular price is viewed unfavorably.

**Figure 2: Economic Routes of Promotion Effects**

	<b>Monetary</b>	<b>Time and/or Effort</b>
<b>Benefits</b>	<ul style="list-style-type: none"> <li>• Reduce price of a given quantity</li> <li>• Increase volume for a given price</li> <li>• Upgrade brands for same price</li> <li>• Provide additional product at lower cost (“buy one, get one” type offers)</li> <li>• Low cost opportunity for trial</li> </ul>	<ul style="list-style-type: none"> <li>• Reduce length of decision process</li> <li>• Provide reason to buy (“free gift with purchase” offers)</li> <li>• Provide a cue for purchase quantity</li> </ul>
<b>Costs</b>	<ul style="list-style-type: none"> <li>• Increase stockpiling costs to hold inventory</li> <li>• Increase consumption due to extra inventory</li> <li>• Require consumption of non-essentials to obtain deal (for deals contingent on purchase of another product)</li> <li>• Maintain high prices via national brand cooperation</li> <li>• Reduce choice set through loyalty program lock-in</li> </ul>	<ul style="list-style-type: none"> <li>• Increase search time to find best deal</li> <li>• Delay purchases to wait for deal</li> <li>• Reduce consumption to wait for deal (forego utility)</li> </ul>

There is also evidence that price promotions lead to unfavorable quality and brand evaluations. For example, when consumers attribute a promotion to something about the brand, their attributions are negative and they believe the product is of poor quality (*e.g.*, “there is a deal on the car because it is inferior”)<sup>16</sup>. This is most likely to happen when others in the industry do not offer promotions<sup>17</sup> and is not seen in the case of frequently purchased grocery products<sup>18</sup>.

In addition to price and quality expectations, consumers develop expectation of when a brand will and will not promote based on brands’ dealing patterns<sup>19</sup>. These expectations increase the probability of purchase when customers encounter an unexpected price promotion on a brand while decreasing purchase likelihood to a greater extent if they expect the brand to be promoted and it is not. Figure 3 outlines the routes by which informational effects impact sales across types of inferences.

The informative role of price promotions may occasionally undercut its economic benefits, leading to a negative effect on sales. For example, a product that has been offered as a free gift may later find it difficult to be a stand alone product—consumers may be less willing to purchase it or willing to pay less for it as they believe it to have a low cost of production and a high margin<sup>20</sup>.

Similarly, increasing the value of a coupon frequently may not affect either deal evaluations or purchase intentions, and in special

circumstances may backfire (lowering intentions), and leading to lower profits for the company<sup>21</sup>. The most notable aspect of these effects is that they are contingent on brand image, consumer expertise, and presence of price information. This suggests that if managers understand the potential of an unfavorable informational effect, they may be able to eliminate it through promotional design and communication (*e.g.*, via including price information or providing quality cues on their promotional materials).

Sometimes, the informative effect of a promotion can be positive, enhancing its economic value. For example, the mere presence of a display (end-of-aisle) can lead to consumers inferring a price cut, and buying more<sup>22</sup>. Restricting a deal by imposing purchase limits can also increase sales, as people believe that the deal is a good one and will be very popular with other customers<sup>23</sup>.

The informational effects can carry through to managers’ profits through reducing purchase intentions, or the maximum price that consumers are willing to pay. It may erode brand equity via a deleterious effect on quality perceptions, or via an increase in consumers’ price-elasticity (making it less profitable for the manager to increase prices).

**Figure 3: Informational Routes of Promotion Effects**

Customer related information	<ul style="list-style-type: none"> <li>• Increase awareness (an advertising effect)</li> <li>• Other people will think this is a good deal</li> </ul>	
Brand related information	<ul style="list-style-type: none"> <li>• Presence of restrictions signals customer demand for the deal</li> <li>• Deeper discounts lead to higher perceived prices</li> <li>• Deep discounts (including being offered for free) lead to perceptions of lower costs and higher margins</li> <li>• Discounts lead to lower quality perceptions especially when others don't promote</li> <li>• Discounts lower price expectations for the brand</li> <li>• Presence of a promotion may create uncertainty about the value of the brand</li> </ul>	
Channel and industry related inferences	Industry related inferences	Store related inferences
	<ul style="list-style-type: none"> <li>• Asymmetric deal patterns may indicate quality variation across firms</li> <li>• Dealing patterns of competing firms signals the level of competition within the industry</li> <li>• Frequent industry dealing may lead to perceptions of low industry costs and margins</li> </ul>	<ul style="list-style-type: none"> <li>• Promotional offers will affect a store's price and quality reputation regardless whether the deal is offered by the manufacturer or store</li> </ul>

**C. Affective Route**

Affective influences of a price promotion are defined as the feelings and emotions aroused by exposure to a promotion, purchase on a promotion, or missing a promotion.

We categorize these along two dimensions: general/specific and positive/negative. New theories of the manner in which sales promotions work have implicated the affective effects of sales promotions, though most of the evidence has been in terms of the positive affective routes by which a promotion promotes sales. The CWL model proposes that promotions may provide hedonic benefits such as entertainment (due to the fun associated with promotions such as sweepstakes) and exploration (the ability to do new things such as buy new brands).

In our conceptualization of the affective routes through which promotions affect sales, we categorize the positive effects as either general or specific. The general effects include the ambient effects of the shopping experience due to the hedonic entertainment and exploration effects as per CWL. More specific effects include the inferences a consumer makes about themselves, such as feelings of being smart or lucky<sup>24</sup>. Promotional communications can

highlight these affective states in the manner in which they communicate a deal to a customer.

There are also negative effects associated with purchasing on deal. These can be overall general feelings such as annoyance especially if discount levels are low and consumers are inconvenienced. There is increasing evidence that consumers attempt to infer why manufacturers or retailers offer a deal (their "motive") to judge how "fair" or "unfair" price changes are<sup>25</sup>. For example, a price increase that occurs as a result of increased costs may be perceived as fair, but a price increase that is driven by a profit motive is perceived as unfair. This has also been shown to be true in a promotion context where current customers may feel that the policy of offering better prices to new customers is unfair<sup>26</sup>. The current customers feel "betrayed" when they see special prices offered to switchers (e.g., new customers) and feel "jealous" when they see offers by other firms to their current customers (e.g., Saab owners feel jealous if Volvo offers \$1000 coupons to its current owners). This suggests that discriminated promotions may not be tenable in the long term as a greater proportion of current customers become aware of the punishment for being loyal.

More specific negative effects include embarrassment of feeling cheap and the regret of missing out on a deal. In one study, consumers were asked to think about how they would feel if they did not take advantage of a “limited time” promotion and later found they had to pay full price<sup>27</sup>. These consumers ended up being more likely than control subjects to purchase during a promotion offered to them later, possibly because they focused on the regret they would feel if they did not avail of the promotional offer. The potential regret due to a missed opportunity can also explain why there is an increase in coupon redemptions immediately preceding the expiration as consumers rush to redeem the coupon before it expires<sup>28</sup>. An overview of how the affective route impacts sales is given in Figure 4.

To summarize, a sales promotion influences sales through three different routes: the economic utility it provides, the information it conveys (either direct or inferred), and the feelings it arouses. A graphical representation of this model showing the three routes, how they interact with each other, and how their effects are contingent on individual and contextual differences is provided in Figure 5.

The model suggests:

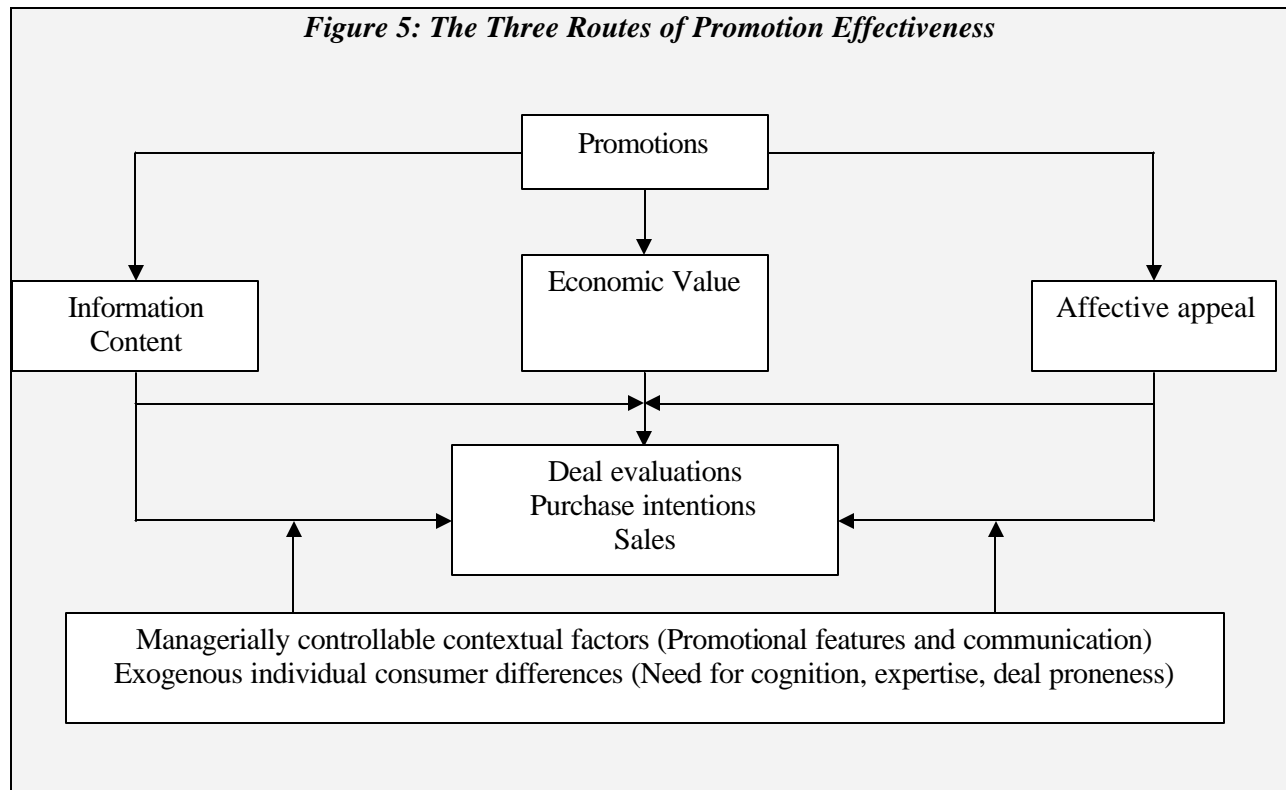
1. There are three ways through which promotions work: their economic value, their information content, and their affective appeal.

The three constructs have main and interactive effects on consumers’ deal evaluations, purchase intentions and sales. This means that while the information content directly affects deal evaluations, it can also affect the way in which the economic value affects deal evaluations.

**Figure 4: Affective Routes of Promotion Effects**

	General	Specific
Positive	<ul style="list-style-type: none"> <li>• Hedonic benefits and entertainment of buying on deal</li> <li>• Exploration and thrill of trying new things</li> </ul>	<ul style="list-style-type: none"> <li>• Feeling of being smart to buy on deal</li> <li>• Feeling of being lucky to avail of the deal</li> </ul>
Negative	<ul style="list-style-type: none"> <li>• Annoyance of dealing with coupons or restrictions</li> <li>• Offering targeted promotions leads to perceptions of unfairness by those who receive shallower discounts</li> </ul>	<ul style="list-style-type: none"> <li>• Disappointment and regret of missing out on deal</li> <li>• Embarrassment of appearing cheap</li> </ul>

*Figure 5: The Three Routes of Promotion Effectiveness*



For example, if a coupon is \$3 off, this is a saving with a positive effect on deal evaluations (main effect of economic value). However, if the \$3 coupon leads to perceptions of higher price, then this inference will undercut the economic savings associated with \$3 (the interaction between economic value and informational content). There may also be a direct effect of information: if consumers believe that a \$3 coupon is offered because the product is poor or old, this quality inference would be a direct information (main) effect.

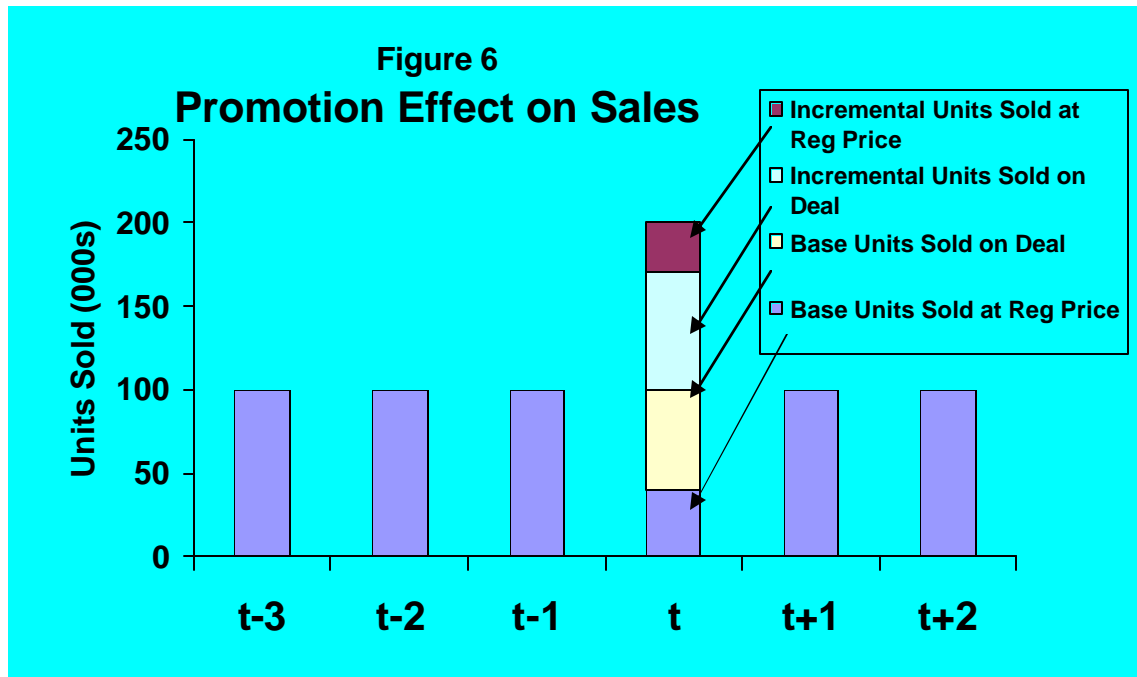
The extent to which the informational value and affective aspects of a promotion affect deal evaluations, purchase intentions and sales is contingent on managerially controllable contextual factors (such as the features and design of a promotion) and features of the target market (e.g., individual differences in customers' expertise, deal proneness).

#### **D. Consumer Promotion Profitability**

We now examine the impact of the three routes on the profitability of a consumer promotion. The profitability of a given promotion can be characterized as follows:

$$\begin{aligned}
 \text{Promotion Profit} = & \text{Incremental Units Sold on Deal } x \text{ (Margin}_R \text{ - Discount)} + \text{Undiscounted} \\
 & \text{Incremental Units } x \text{ Margin}_R \text{ - Base Units Sold on Deal } x \text{ Discount - Promo Cost +} \\
 & \text{(Positive vs. Negative Carryover Effects)}
 \end{aligned}$$

The first two terms partition incremental sales into two parts: the extra profit realized from selling additional units over the baseline at the discounted value (i.e., via the economic route) and the extra profit realized from incremental sales due to the non-economic effects (i.e., the informational and affective routes, as well as the non-monetary economic effects) at the regular margin. Alternatively, this term can be interpreted as capturing the increase in profits realized from decreasing the economic value (e.g., lower face value). The third term represents "subsidized sales," baseline units sold at the discounted margin. The fourth term



captures the costs of running the promotion (e.g., printing costs, sweepstakes prizes), while the remaining term represents the net value of the positive carryover effects versus any negative carryover effects.

To illustrate the importance of considering all three routes, consider Figure 6. In un-promoted weeks t-3, t-2, t-1, t+1, and t+2 the firm sells 100KU. In promoted week t the promotion results in incremental sales (versus baseline) of 100KU. However, any promotion worth its salt will increase sales. Creating a profitable promotion is much more difficult. If we make the simplifying assumption that the promotion carryover effects balance, then the amount that the firm can spend on the promotion and still have a net profit is given by the difference between the profits gained from the incremental sales versus the loss of profits incurred from discounted sales of baseline units.

To insert some figures for the sake of comparison, assume that the face value of the consumer promotion was \$0.50 and that the regular margin is \$0.80. Per Figure 6, incremental sales at the discounted price were 70KU, a profit of \$21,000 (70KU x \$0.30). In

contrast, loss from baseline sales on deal is 60KU x \$0.50, or \$30,000. Thus, this promotion has not generated sufficient incremental lift to turn a profit based on the economic route alone. However, when the incremental sales of 30KU at the full margin of \$0.80 is considered (\$24,000), then a net profit of \$15,000 is realized (before promotion costs) and the firm can afford to spend up to \$15,000 and still make a profit. Our main point in this article is that incremental sales are influenced not only by the discount size (economic route), but also by the time and effort effects, informational effects, and affective effects. Our argument is that promotions designed with these effects in mind can either generate additional incremental sales or maintain a given incremental sales effect while decreasing the economic incentive (discount). Since many of these effects are largely costless, promotion profitability is greatly increased.

### III. Managerial Design of Promotions

The conceptual model in Figure 5 suggests that the extent to which information content and affective appeal impact consumers' response to a promotion are contingent not only

on aspects of the consumer, but also on aspects that are very controllable by the manager: the promotional features and communication methods.

Managers make decisions about the design and communication of a promotion, which in turn influence how consumers process promotional information. Some of these design factors include the choice of product, target segment, type of promotion, and communication.

Within each of these decisions there are a range of managerially controllable and uncontrollable factors that will influence the short-term and longer-term effectiveness of the promotion. Some decisions, such as choice of product to promote, are more straightforward since market forces guide the manager's decision. However, other decisions are less obvious, such as choice of target segment, where unmeasured customer attributes such as expertise or deal proneness may greatly affect the outcome. Thus, it is in the interest of managers to understand the levels of promotional design decisions in order to anticipate possible negative informational or affective responses to promotional offers or find routes to offer reduced economic incentives while maintaining or increasing consumer promotional response.

As with most marketing decisions, effective promotional design requires an understanding of the target segment and their relationship with the promoted product. A promotional offer will cause fewer negative inferences regarding the brand or product quality in the case of experience-type goods or frequently purchased items<sup>29</sup> or a target-segment with high levels of expertise. However, in the case of new products or categories or markets without significant dealing by competitors, managers may need to use offer features such as deal restrictions to signal the value of the brand. Firms may also choose to offset negative quality inferences by offering more information in the description of the promotion including a reference price or a reason for discounting such as an anniversary or end of season. When possible, managers should also consider crafting deals with strong affective appeal through the use of "buy one, get one free" type offers as the

framing of offers can affect the manner in which consumer process them<sup>30</sup>.

Figure 7 shows the descending levels of managerial decisions regarding sales promotions, the factors within each variable that will affect the outcome and some brief findings regarding the three routes to impact sales - economic, informational or affective. Each of these findings are followed by a simple one-line recommendation. The managerial decisions examined include: choice of product to promote, choice of target segment, type of promotion and design, promotion pattern and intensity, and promotional communication method. The one-line recommendation is included to be a guide to managerial action, but not a substitute for the manager investigating the implications of the three routes for whether, when, and how to offer a promotion.

#### IV. Conclusions

Sales promotions are a key tool for managers to increase sales. We have discussed how promotions work and have proposed a framework that may allow managers to design more profitable promotions. Specifically, in this article we propose a model that examines the effect of managerially controllable actions - designing and communicating a sales promotion - on increasing the incentive for different segments of consumers to purchase a product. We develop an integrative model, theorizing that sales promotions have three distinct aspects: (i) An *economic* aspect that provides an immediate economic incentive to purchase a brand, including non-monetary incentives such as saving time and effort to make a decision; (ii) An *informational* aspect that consumers use as the basis to draw inferences; and (iii) An *affective* aspect that impacts how consumers feel about their shopping transaction.

**Figure 7: Process Model of Promotional Design**

Managerial decision	Construct affected	Economic effect	Information effect	Affective effect	Examples of Documented Effects
Choice of product to promote	Industry competitiveness		X		If promotional behavior is uncommon in the industry, consumers may attribute brand promotional behavior to low quality. <i>Think twice before promoting if no one else in the industry promotes.</i>
	Cost structure	X	X	X	Low costs allow deeper promotions and customers love large discounts but deeper promotions also lead to inferences of high prices and fat margins. <i>When offering a deep discount, let the customer know what a great deal they are getting and that you can't afford to let the product go at this price very often. Be explicit about the regular price of the product, and if possible, signal the percentage discount and reduction in profitability for the firm.</i>
	Type of product		X		Experience-type goods and frequently purchased goods are less affected by promotions due to high consumer familiarity. <i>Using promotions to reward existing customers can increase loyalty, but attempt to ensure that these promotions lead to higher overall sales (due to increased consumption or word-of-mouth effects) and not merely a substitution of purchases that would already have been made, just at a lower cost.</i>
	Degree of variability		X		High variation in prices, quality or costs across firms reduces the positive and negative informational effects of a promotion. <i>Promotions can be profitable in these circumstances.</i>
Choice of target segment	Expertise		X		Expertise reduces the inferences a consumer draws from promotional communication. <i>Promotions that cue quality positively are more effective to attract new buyers; and those that cue quality negatively are more effective at retaining existing customers.</i>
	Deal proneness			X	Some people enjoy buying on deal more than others. <i>Positioning deals for the deal-prone segment may imply increasing the excitement or enjoyment dimensions of the deal, e.g., sweepstake offers, and scratch-off deals.</i>
	Demographics	X			Coupons are more likely to be redeemed by females and lower income households <sup>31</sup> and the presence of children and a “working wife” have a negative effect on the ability to take advantage of deals since both activities are time sensitive <sup>32</sup> . <i>This allows you to price-discriminate among buyers who have different time and effort costs and to offer lower prices to those who are more price sensitive.</i>
	Need for cognition		X		Some customers are more willing to make the effort to process information while others will rely only on the information presented to make decisions and are thus more prone to use restrictions and other deal details as sources of information. <i>In certain shopping environments, e.g., where there is information overload (such as supermarket aisles), the presence of simplifying cues such as aisle displays and restrictions can be particularly effective at signaling that a deal is a “good deal” worth buying.</i>

Managerial decision	Construct affected	Economic effect	Information effect	Affective effect	Examples of Documented Effects
Type of promotion and design	Price or non-price deal (including “discount with purchase”)	X		X	<p>“Free” offers are higher on affective dimensions than price promotions as they can allow consumers to explore and satisfy their need for variety by trying new product categories. But true effectiveness depends on customers increasing subsequent consumption to ensure ongoing repurchase levels. <i>Framing a deal as a “buy X, get Y free” may lead to greater sales than a bundled offer (e.g., buy X and Y at \$__).</i> However, the value of the product offered for free should be specified.</p> <p>A product offered for free may be later devalued by the consumer. Presence of “discount with purchase” (e.g., discount on 2<sup>nd</sup> product with a minimum purchase amount) may backfire if consumers feel unlikely to avail of the discount, as they will use this as a reason not to purchase the brand<sup>33</sup>. <i>The product offered for free should be one that most people will want to avail of, as the mere presence of such an offer may be used to justify not purchasing the product. The value of this free offer should be specified.</i></p>
	Depth of discount	X	X	X	<p>Larger discounts can reduce search costs for customers. <i>All else equal, larger discounts spur purchase.</i></p> <p>Depth of discount must be large enough to be noticed but not too large as to be unbelievable. Discounts between 10% and 30% lead to differences in perceived savings, but there are no differences between 30%, 40% and 50% discounts<sup>34</sup>. <i>If the discount being offered is above the 30% level, it should be clearly specified with the reason for the high discount provided. Pretest the way in which a promotion is framed, before running it.</i></p> <p>Coupon face value is positively related to incremental sales but this may be due to increase in infrequent buyers or brand switchers. <i>Along with a coupon promotion, include other aspects in the marketing mix to improve and manage brand equity.</i></p>
	Redemption effort	X		X	<p>Higher redemption effort has negative affect upon coupon redemption rates<sup>35</sup> however it can have a positive affect on repurchase via brand inferences<sup>36</sup>. <i>Making consumers “work” in a fun way (e.g., scratch off) for a reward may reduce the negative attributions that a consumer may make that they only bought the brand because it was on deal, and not because they particularly liked it.</i></p>

Managerial decision	Construct affected	Economic effect	Information effect	Affective effect	Examples of Documented Effects
	Features (including restrictions and guarantees)	X	X	X	<p>People may use explicitly stated purchase limits as a cue to determining the purchase quantity of frequently purchased products. <i>Use of purchase limits increases purchase quantities rather than decreases them!</i></p> <p>Restrictions can signal value of deal or brand and can ease the search process but when the discount is low they lead to irritation and may backfire. <i>Only use restrictions when the discount is already fair or higher to start with.</i></p>
Promotion pattern and intensity	Deal frequency		X	X	<p>The greater the perceived frequency of price promotions, the less consumers expect to pay for the brand. This could affect repeat purchase behavior. <i>With repeated promotions, remember consumers will expect to pay the discounted price. Offering promotions at irregular intervals can help reduce this effect.</i></p> <p>A large number of noticeable discounts leads to higher perceived value than a small number of extreme discounts. <i>Offer discounts frequently, but not large ones.</i></p>
	Deal regularity		X		<p>The greater the regularity of dealing the more accurate perceptions of deal frequency, particularly with an increase in the frequency of dealing for both the promoting brand as well for its competitors<sup>37</sup>. See above for effects of higher perceived deal frequency. <i>Offer deals infrequently.</i></p>
Communication	Semantic description	X	X	X	<p>Semantic description can provide a cue for purchase quantity (i.e., 2 for \$5). <i>Using an “X for \$__” frame is more effective than a straight percentage off.</i></p> <p>“Buy one, get one free” descriptions are superior to “Save \$x” or “2 for \$x” possibly due to the use of the word “free”, while “x% off” is the least successful semantic description. <i>Use variations of BOGO offers when possible.</i></p> <p>Use of tensile or vague claims like “up to 50% reduction” in conjunction with large advertised price reductions may result in decreased perceived offer value<sup>38</sup>. <i>Beware of consumers perceiving they are being deceived or tricked.</i></p>
	Amount of information (including economic details, reasons)		X	X	<p>Presentation of a reference price increases perceived savings for a price promotion<sup>39</sup>. <i>Always include the regular price or MSRP as this reduces the likelihood that a customer will think that the deal price is the regular price, and be disappointed when the deal is retracted (and the product is at full price again).</i></p> <p>Information can signal price and quality. Since price promotions may signal lower quality, other information should be given in the offer to reduce the negative effect on brand evaluations. <i>Providing contextual information about prices can reduce these effects.</i></p>

**Figure 8: Do's and Don'ts of Promotion Design**

Managerial Decision	Do's and Don'ts
Should I promote?	Promote if others in the industry are offering a promotion and you are competing on price. Do not promote if you are the only firm in your industry offering a promotion. Do not promote if you have a high quality/ high price position. Once you have offered a promotion, stopping the practice can hurt.
What product should I promote?	Promote a product for which you want to increase trial or repurchase rates. Promote a product where additional inventory at home will increase consumption levels (e.g., discretionary food items such as yogurt, cookies). Do not promote a product that many consumers would have purchased anyway at full price. Do not promote a "flagship" brand as that can lead to cheapening of the product line.
To whom should I offer a promotion?	In the initial stages of a product life cycle, offer a promotion to non-buyers of the product category to increase industry sales and accelerate the growth of the product life cycle. In the mature stages of the product life cycle, offer a promotion to competitors' consumers to induce them to switch to your brand. In the mature or decline stages of a product life cycle, offer a loyalty promotion to existing consumers to retain them and discourage them from switching to competitors.
What discount level should I offer?	Consumers expect a good deal to be in the region of 20-40%. Deals at higher discount rates could actually backfire and lead to negative quality inferences. Deals at lower levels may not be sufficiently attractive to induce switching, but may be effective at retaining loyal customers.
What form of promotion should I offer?	Matching the promotion to the product category is useful. If it is a utilitarian product category (e.g., dishwashing liquid), then a straight economic incentive (e.g., \$ off) may be sufficient, but if it is a hedonic category then a promotion with excitement (e.g., sweepstake) may be cheaper and more effective. "Free" offers are always effective ("BOGOs" usually outperform "1/2 off" promotions). Coupons are increasingly less effective due to their inconvenience and the embarrassment associated with using them. For frequently purchased goods, a loyalty program (with a hedonic reward) is very effective.
What features should I include in the promotion?	The presence of a "restriction" (time limit, purchase limit, or purchase precondition) can typically increase sales if the deal is reasonable to start with. Always provide full price and value information in the promotion to allow consumers to assess what they are getting. The regular price of the product should be retained wherever possible as its mere presence will reduce the likelihood of drawing a price related inference (that can be unfavorable) from the value of the deal. Include the "value" of the product being offered for free (or at discounted price) if it is a reasonable value, for while consumers may not accept the full claim, they will use this value to anchor on and assess the value.
How frequently should I promote?	Infrequently. Promotions that are offered at a high frequency lead to many consumers expecting a promotion and waiting for it, leading to their delaying purchase until they can buy at a discounted price.
How regularly should I promote?	A regular promotion with a reason (e.g., semi-annual sale) can be effective. While consumers can wait for the promotion, they may be persuaded to buy more than they normally would have at a long-awaited event.
Should I provide reasons for the promotion?	Providing a reason will impede informational inferences and may also lead to positive affect. For example, stating that a promotion is offered to existing customers to "reward" them for their patronage would be more effective than stating that it is offered to retain their business.

We suggest that the features and advertising mode of a promotional offer differentially impact both its information value and its affective appeal and accordingly

supplements or detracts from the economic incentive it provides the consumer. Such a conceptualization can help managers design and communicate consumer promotions more

efficiently as well as more effectively. Based on the literature, a short set of the do's and don'ts of promotional design is summarized in Figure 7.

To summarize, the main purpose of this article was to show that promotions can be improved if managers realize that the routes through which they affect consumers are more than through merely offering an economic incentive. Recognizing other positive and negative influences—economic, informational, and affective, allows them to devise ways to reduce the negative effects in a way to maximize a promotion's impact in the short and long run. By the same token, due to the proliferation of promotions, offering a promotion may be a trickier tactic today than it was three decades ago. Managers should think twice before starting on a promotional roller coaster from which it may prove difficult to exit.

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