

RUNNING HEAD: FRAMING A PRICE BUNDLE

**Framing a price bundle:  
The Case of “Buy/ Get” Offers**

(Revised for the *Journal of Product and Brand Management*. Special Issue on Pricing)

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## Abstract

Two experiments examine how consumers respond to products that have been offered as “free gifts with purchase” of another product. The underlying thesis is that consumers will infer that the costs of production of a product that is offered for free are low, and this will reduce the price they are willing to pay for the product when it is a standalone offering. Study 1 shows that when an economically identical offer is framed as a joint bundle (Buy X and Y for \$) as compared to when it is framed as a “Buy one, Get one free” offer (Buy X for \$, and get Y free; or Buy Y for \$ and get X free), consumers are willing to pay less for the product offered for “free.” Study 2 shows that when a product is given away for “free,” then consumers are willing to pay less for it as a standalone product, especially when the original promotional offer does not include the price of the free gift. We discuss implications for the manner in which the design and communication of consumer promotions affects the price consumers are willing to pay for a product. Managerial implications for the design and communication of consumer promotions are discussed.

Keywords: Price promotions, price inferences, framing effects, experiments.

*"White Diamonds by Elizabeth Taylor: Free Body Mist with purchase of  
fragrance."*

*"Free pair of pearl earrings with purchase of Pearl Necklace (\$66)."*

*"An 8-piece gift set free with any \$18.50 Estée Lauder purchase! Including full size  
lipstick."*

The *White Diamonds* Body Mist is a part of the product range of the cosmetic company along with the fragrance it promotes. What are the implications for later sales of this product, given that it was the “freebie” used to promote the fragrance (another item in the product range)? Similarly, full sized lipsticks are part of *Estée Lauder’s* product range. Should they be offered for “free,” or should the free gift offer be limited to sample-size units of the product range? While many cosmetics companies offer products from their range as part of these “free gift” specials, others only offer products that are not a part of their regular offerings. For example, Polo offers freebies such as duffle bags and backpacks, while Clinique offers full sized lipsticks.

Further, some companies include the prices of the “free gift” in their promotional offers while others do not. The question is: does including prices of the free gifts improve the perceived value of the gift or is this price simply discounted and not fully believed by consumers?

Free gift offers are used by some companies to introduce a new product. The question that follows is: When a new product is being introduced along with an existing

one, should the new product be offered as a “free gift” or should it be offered as a joint price bundle where the two products are sold together for the same dollar amount? That is, will a pearl manufacturer sell more pearls when the offer is a “Buy Necklace and Earrings for \$66,” or when the offer is “Buy necklace for \$66, and get earrings for free”?

These examples illustrate that we need to understand the implications of the design and communication of free gift offers for the products that are offered as a free gift. This is an important issue as "free gift with purchase" offers are becoming increasingly common in a variety of domains. In the cosmetics industry, Sexton (1987) reports that over 60% of department store make up sales have free gift offers. The Apple store recently offered a promotion on their Mac computers for a sizable coupon that would cover the price of a mini I-Pod. They did not advertise it as a “Buy a computer, get an I-pod for free,” but framed it as a savings of \$200 on the purchase of a computer, which could be used towards the purchase of an I-pod. Are there any advantages of such a framing? This is a relevant question as framing effects are ubiquitous in price promotions (*e.g.*, Grewal, Marmorstein, and Sharma, 1996, Johnson, Hermann and Bauer 1999, Sinha and Smith 2000), and have been shown to be contingent on contextual factors such as price discount levels (Hardesty and Bearden 2003). Overall, a recent meta-analysis has shown that the manner in which a deal is framed substantially affects deal evaluations and purchase intentions (Krishna, Briesch, Lehmann and Yuan, 2002).

The notion that consumer promotions are informative, and affect sales through

more than offering a monetary incentive to purchase is not new (Campbell 1999, Friestad and Wright 1994, Inman, McAlister and Hoyer 1990, Inman, Peter and Raghurir 1997, Kirmani and Rao 2000, Raghurir 1998). Friestad and Wright's (1994) persuasion knowledge model suggests that consumers might make inferences regarding why a free gift is offered. To the extent that these reflect beliefs of the type: "They are giving a free gift because the costs of the promoted product are very low," or "The free gift probably costs very little," consumers may use free gift information as a signal of fair price. If consumers believe that the manufacturer is not to make a loss on the transaction, then they should infer that a product offered for free with another product is either cheap to produce, or the margins associated with the product offered for sale are large enough to cover the costs of the free gift. This implies that they would use price and price discount information to make inferences regarding the costs and profit margins of the seller. Campbell (1999) explicitly argued and demonstrated that people have a tendency to think about sellers' costs and profit margins.

In a recent application of these ideas to the context of free gift promotions, Raghurir (2004) suggested the "value discounting" hypothesis, by which promotional offers may affect future sales of the brand being offered as a free gift. The argument goes as follows: Consumers know that offering a promotion leads to manufacturers sharing profit margins with the consumer, which implies that these margins are large enough that the manufacturer will not make a loss (but see Kirmani and Rao, 2000 for the "signaling" argument which delineates conditions when the opposite inference may be

made). The inference that the product being offered for free is inexpensive should lead them to reduce the price they are willing to pay for the product offered for free if they were to purchase it as a standalone product. Through this route, being offered for free would discount the value of a product and lead to consumers being willing to pay less for it.

The underlying thesis of the current paper is that consumers will discount the value of a free gift even when the offers are economically identical, just differently framed, and that the presence of price information about the free gift will attenuate the effect. Study 1 shows that when an economically identical offer is framed as a joint bundle (Buy X and Y for \$) as compared to when it is framed as a “Buy one, Get one free” offer (Buy X for \$, and get Y free; or Buy Y for \$ and get X free), consumers are willing to pay less for the product offered for “free.” Study 2 shows that when a product is the one given away for “free,” then consumers are willing to pay less for it as a standalone product, especially when the original promotional offer does not include the price of the free gift. The two studies are now described.

### **Study 1: Framing Effects of a Free Gift Offer versus a Bundled Offer**

#### Information content of price promotions

Recent models of the manner in which price promotions work have suggested that

consumers make inferences based on promotional offers, particularly when they do not have access to alternate sources of information to make judgments that serve as inputs into their purchase decisions (Raghubir, Inman and Grande 2004). Consistent with this argument, the one study that has examined the effect of “purchase with purchase” promotions on brand choice has found that, in some cases, they may actually decrease the probability of a brand being chosen (Simonson, Carmon, and O'Curry 1994).

Simonson et al. examined a series of “purchase with purchase” promotions: *e.g.*, a Doughboy Collector's plate that Pillsbury cake mix buyers could purchase for \$6.19; a golf umbrella for \$8.29 with a purchase of Kodak/ Agfa film; a magazine subscription with purchase of a CD player etc. They found that those who did not want the plate were actually less likely to buy the promoted cake mix. The argument offered by Simonson et al. is that the promotion provided a reason against buying, and was less justifiable, leading to it backfiring. Their evidence backs this suggestion: effects were stronger among those who expected to justify their decisions (Study 3).

Bundling has been shown by others to have positive effects on consumers' purchase intentions (Johnson, Herrmann and Bauer, 1999, Mulhern and Leone 1991, Soman and Gourville 2001), though this effect has been found to be contingent on contextual cues such as the type of the bundle and individual differences in product familiarity (Harlam, Krishna, Lehmann, and Mela 1995). The typical argument used to examine consumers responses to bundled items used the Thaler (1985) mental accounting argument where integrating prices into a single amount is perceived to have

lower disutility than segregating prices into their individual components (based on the steepness of the loss aversion curve from Prospect Theory, cf. Kahneman and Tversky 1979). This approach has examined the (dis)utility consumers derive from paying a price. However, a direct application of this argument to the BOGO offers has not found that framing affects consumers' internal reference prices (Sinha and Smith 2000).

An alternate (complementary) approach to examine the effect of bundling is that it reduces the transparency of a single price or a single discount. Therefore, to the extent consumers infer prices from discounts, bundling will make it more difficult for them to do so. This is the argument used by Raghurir (2004) to show that when a well-known brand (Cross pens) was offered as a free gift with a cheaper (versus more expensive) brand of alcohol, then people were willing to pay less for it as a stand-alone product. In fact, the effects held when the information regarding deals was identical, but merely the order of exposure to different promotions was varied. Specifically, the mere exposure to the fact that a product in a category was offered as a free gift (a strand of pearls offered with a bottle of alcohol), led to people being willing to pay less for an unrelated brand of pearls. This was presumably because they had inferred that pearls were cheap because the alcohol manufacturer was able to gift them away for free. This inference carried over to another brand from the same category.

We now examine the same process in the context of framing an offer as either a buy/ get offer or as a bundle. In the buy/ get frames, if consumers make the inference that the cost of the free gift is low, this should lower the price that they are willing to pay

for it when it is offered as a stand-alone product. That is:

**H1: Promotional frame will moderate the price consumers are willing to pay for a product, such that it will be lower when the product is a free gift rather than a part of an economically equivalent bundled offer.**

This study tests H1: the effect of offering a pearl product as a free gift with purchase of another pearl product versus offering the two together as a joint bundle.

### Study Participants

Study participants were 74 undergraduate students of the Introductory Marketing course at a large west coast university who participated in this study for partial course credit.

### Design and Measures

The design was a one-way between subjects design where study participants were shown one of three ads for an offer from Piasso pearls. The picture of the pearls was the same in all cases and only the headline differed. In one condition, participants were told that the Pearl Earrings were available for free with the purchase of a pearl

Necklace for \$66. In the reverse condition, they were told that the Necklace was available for free with purchase of Earrings for \$66. Note, the price of earrings and necklaces of pearls is a function of the size of the pearls used in either, making both conditions (earrings for free, or necklace for free) plausible. We expected that people would be willing to pay less for earrings in the condition they were offered as a free gift as compared to the other two conditions. In the third condition, the two products were offered as a bundle for the same price. Participants were told that they could buy the necklace and the earrings for \$66. This served as the control condition.

Study participants were asked the maximum price they were willing to pay (PWP) for the earrings using an open-ended format.

## Results

As predicted, a one-way ANOVA on the price people were willing to pay for the earrings revealed a main effect of frame ( $F(2, 71) = 4.16, p < .05$ ). The average price that participants were willing to pay for the earrings was lower (Mean = \$20.22) in the frame where the earrings were “free” with the purchase of the necklace, and was higher when the necklace was framed as being the “free” product (Mean = \$35.42,  $t = 2.50, p < .05$ ). The price for earrings in the bundled price condition was in the middle of these two estimates (Mean = \$23.46, significantly different from \$35.42,  $t = 2.04, p < .05$ , but n.s.

from \$20.22).

## Discussion

To summarize, we find evidence for the value discounting effect: people were willing to pay less for the earrings when these were offered as a “free gift” with the necklace, as compared to when the necklace was offered as the free gift with the purchase of the earrings. The next study tests whether the value discounting effect replicates with a different control and whether information-based contextual moderators can ameliorate the discount value hypothesis.

### **Study 2: Contextual Moderators of the Value-Discounting Effect**

This study examines the value-discounting effect independent of the bundle offer. It also examines the moderating effect of contextual price information about a free gift on the value-discounting hypothesis. The context chosen is a free gift promotion conducted by the Elizabeth Taylor brand name for an introductory launch of the “White Diamonds” fragrance. In actual fact, the company used the promotion tested here (including the value of the free gift). The fragrance was advertising a “free gift” of a silky moisturizing body mist (4.2 oz.). In this study, we examine the effect of this type of offer on purchase intentions for the body mist. The value-discounting hypothesis would predict that

consumers that were exposed to the offer of the body mist for free, would be willing to pay less for it or be less likely to purchase it, as compared to those who did not see it in the context of a free gift. Note the difference versus Study 1. In this study we examine whether the presence of a free gift claim leads to different judgments as compared to a joint advertisement. Formally, we propose an extended variation of the value-discounting hypothesis:

**H2: A product will be unfavorably affected in terms of the maximum price consumers will be willing to pay to purchase it, if it has been offered as a free gift (versus not).**

Informational Moderator of the Value Discounting Hypothesis: Value of the free gift.

Based on the theory that a free gift is a source of information, it should be used to the extent alternate sources of information are unavailable to consumers. In support of this Raghubir and Corfman (1999) showed that the inference of a price discount leading to perceptions of poor quality was moderated by the product category expertise of consumers--novices were more likely to make the unfavorable inference from the promotional offer. While individual sources of information about product quality are one source of information that consumers can use to make judgments, other sources include the purchase preconditions required to avail of the free gift, and the contextual presence of value information of the promotional offer.

The presence of alternate information about the price of the body mist should attenuate the value-discounting effect as it provides an alternate source of information by which consumers can make price judgments. In other words, it allows consumers to anchor on the stated price of the free gift, even if the full claim of its value is not accepted (Blair and Landon 1981). Prior literature has shown that the presence of contextually provided price information moderates the effect of promotional cues on price inferences: e.g., the “coupon value” effect (Raghubir 1998). Raghubir (1998) showed that when the price of a product was given along with the amount of the coupon promotion, the coupon was uninformative of product price, and was not used to make price inferences.

Whether consumers will invoke the value discounting inference should be a function of whether the value of the free gift is mentioned. Thus, when price information about the free gift is absent (as was the case in Study 1), the value-discounting hypothesis should operate. However, if the price of \$30 is present alongside the price of the promoted product (\$45), then consumers have access to multiple sources of information to compute a price for the free gift. When the value of the free gift is mentioned, even if consumers do not believe it is worth the amount advertised, they can use this value as an anchor for the price of the product. This is likely to inhibit the inference that the product being offered for free is of low value. When the price of a free gift is not available, consumers instead “fill in” this price based on expectations of an average discount rate. This can help them resolve the incongruity inherent in the

apparently reduced profitability of the transaction. In sum, we propose that:

**H3: Providing the value of a free gift will moderate H2, such that when no value is provided, value discounting shall occur, but providing value information will mitigate this effect.**

## Method

*Study Participants.* Participants were 146 undergraduate students of the Introductory Marketing course at a west coast university who participated in the experiment for partial course credit (male = 77, female = 68, non-response to gender question = 1). Due to partial non-response to some questions, degrees of freedom may vary (n = 139 responded to all questions).

*Design and Procedure.* All participants were shown an advertisement for the White Diamonds fragrance by Elizabeth Taylor. We used a 2 x 2 between subjects design, manipulating whether the body mist was offered for free with the fragrance vs. not (a joint advertisement condition), and the stated value of the body mist freebie (\$30 vs. absent).

The primary dependent measure was the maximum price people were willing to pay (PWP) for the body mist elicited using an open-ended format.

## Results

An initial analysis incorporating the gender of the participants revealed that while gender had a main effect as would be expected ( $F(1, 130) = 9.07, p < .01$ ), it was not involved in any significant interactions with the measures. Thus, it is ignored in the analyses reported below.

We expected that PWP for the body mist would be higher when it had not been offered as a free gift (H2), and this effect would be moderated by the presence of price information about the free gift (H3). The 2x2 (free gift or joint ad x price of body mist present or absent) ANOVA on the price people were willing to pay showed a significant cross-over interaction between the two between-subjects factors ( $F(1, 135) = 5.44, p < .05$ ).

The pattern of the interaction was as predicted by H3. When no value information was provided, offering the body mist as a free gift lowered PWP (Mean = \$12.06 vs. \$14.27 for free gift versus not respectively), although this contrast did not reach significance. However, when the body mist was advertised at \$30, PWP was higher when the body mist had been offered for free (Mean = \$14.92) as compared to when it had not (Mean = \$10.24, contrast  $p < .05$ ). Neither main effect was significant ( $F$ 's  $< 1$ ).

### Discussion

The value discounting hypothesis that offering a product as a free gift may lower

consumers' PWP for the product as a stand alone purchase was directionally supported in the condition where the value of the free gift was not provided. However, when the value of the free gift was given, we saw a reversal. While the reversal effect is interesting, it requires conceptual replication to ensure its nomological validity, as it could be due to a variety of factors.

For example, to the extent the free gift enhances the economic value of an offer, its inclusion, *ceteris paribus*, should lead to improved purchase intentions for the promoted product. However, the White Diamonds free gift offer is almost 67% of the value of the promoted product (Body Mist = \$30; Fragrance = \$45), a phenomenon not uncommon among free gift offers in the cosmetics industry, some of which are a few multiples of the purchase requirement. This is a value substantially higher than the 20-40% discount that consumers typically expect with price promotions (Raghubir 1998) and is incongruent with consumers' beliefs that marketers are in the market to make a profit. In this experiment, we also saw convergent evidence towards this latitude of expected discount rates. First take the "free gift" condition: when there is no information about the value of the gift, but the value of the promoted product is \$45, PWP for the free gift are \$13.80, implying an expected promotion rate of 30.67%. On the other hand, when the price of the "free gift" was given at \$30, a 67% discount, consumers responses are consistent with an averaging inference: an average of the two discount rates is 48.5, which is very close to the implicit discount rate assumed in a price of \$20.56 (over base price of \$45). This account is consistent with the hypothesis that the use of "free gift"

information to make price judgments will be contingent on the availability of alternate sources of information to make the same judgment. It also implies that the “reversal” effect noted is possibly an artifact of the price of the free gift promotion product being a high one, and requires replication before one can base a conclusion on it.

### **General Discussion**

Two experiments examined the effects of a “free gift with purchase” offer on the product that is offered for free. Study 1 shows that when an economically identical offer is framed as a joint bundle (Buy X and Y for \$) as compared to when it is framed as a “Buy one, Get one free” offer (Buy X for \$, and get Y free; or Buy Y for \$ and get X free), consumers are willing to pay less for the product offered for “free.” Study 2 shows that when a product is given away for “free,” then consumers are willing to pay less for it as a standalone product, especially when the original promotional offer does not include the price of the free gift. The results are consistent with the underlying thesis that consumers infer low costs of production of a product that is offered for free, and accordingly, are willing to pay less for it.

### Theoretical Implications

This article adds to the growing body of evidence that price promotions are more

than just money off--they are a source of information that consumers use to make judgments about products and their prices. This has been demonstrated in the context of free gift offers. A recent conceptualization by Raghubir, Inman, and Grande (2004) suggests that there are three routes through which price promotions may affect sales. These are the economic route, the informational route, and the affective route. The economic benefits of a price promotion include not only the actual amount saved, but also other benefits such as reducing search costs, being able to upgrade to a better brand, etc. Economic costs on the other hand include the risks associated with delaying purchase while awaiting a future promotion, and the risks of over-stocking among others. The affective benefits of a price promotion are based on the hedonic benefits of exploration, value expression and entertainment explicated by Chandon, Wansink, and Laurent (2000), as well as feelings of being a smart shopper (Schindler 1992). The affective costs include regret (of missing a promotion), embarrassment, and irritation (due to the need to comply with restriction to avail of a promotion).

The article also sheds light on how consumers process free gift offers. As Simonson et al. (1994) found, the presence of a promotional offer could actually backfire and lead to reduced choice probabilities as compared to the absence of the promotional offer. They explained their findings in terms of the promotion providing a reason to disqualify the brand from a choice set. In this paper, we show another effect--being offered as a free gift can cheapen the brand itself. The value-discounting hypothesis offered in this paper, argued that the apparent incongruity of a manufacturer giving away

something for free can be resolved by devaluing what is given away. However, consumers have an alternate way to resolve this incongruity if (a) the free gift is part of the product line of the main promoted product and is a repeat purchase item, or (b) the price of the free gift is provided and is incongruently high. Instead of focusing on the manager's need to make a profitable transaction in the immediate term, consumers may think of the free gift offer as a trial-inducing device. In this case, the attribution for the promotion is not so much to increase the sales of the promoted product, but to increase future sales of the free gift item.

### Managerial Implications

The primary implication for retailers and manufacturers are that they should think twice before offering a product that they expect to be a part of their product line, as a free gift in a promotion of another product, unless they include its value information explicitly in the free gift promotion. Offering a bundle is less likely to lead to consumers drawing inferences about the values of the two products. Some companies clearly recognize this. For example, while Estée Lauder's sales using free gift deals account for nearly half their sales (Trager 1984), the higher brand name Chanel does not offer any freebie promotions (Matthews 1995). Aramis is adopting the strategy of giving away sample sized products from their line as gifts, presumably to get consumers to try (and then adopt) these products (Nayyar 1993).

Another implication of this research for companies is that the price of the free gift should be explicitly mentioned if discounts are large and are outside the 20-40% latitude of accepted discount rates.

### Areas for Future Research

Economists have proposed that price promotion offers may signal high quality (for a recent review, see Kirmani and Rao 2000) as low-quality products cannot afford to subsidize trial. If this type of reasoning dominates, then offering a product for free should increase its purchase likelihood post deal retraction. To examine the scenarios where this could occur is an area for future research.

Future research could also examine the role that free gifts could play in alleviating the guilt associated with a hedonic purchase for oneself. If manufacturers and retailers were to offer free gifts that could be given to another person, then the purchaser of a hedonic product (such as perfume or jewelry) may feel less guilty about purchasing a luxury for themselves.

An interesting examination would be to explore the effect of visual framing effects on the manner in which consumers process free gift offers. In some instances, free gifts are advertised more prominently than are the products that they accompany. In other cases, the products are advertised, and the free gift is mentioned but less prominently. It would be an interesting area for future research to examine how the relative visual

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prominence of the brand versus the free gift would affect the kinds of inferences that consumers draw from these offers.

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