

Study looks at how consumers respond to certain retail sales promotions

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Some shoppers find it difficult to resist the siren song of a discount.

Buy one T-shirt for \$8 or two for \$12. Buy two bars of soap and save \$2

off the total price. These types of deals can make people spend more than they would without a [promotion](#).

The challenge for retailers is knowing how and when to offer such deals, known as conditional sales promotions. Given consumers' varying reactions to them, conditional promotions don't always pay off. A recent study co-authored by a Johns Hopkins University researcher shows savvy sellers can present the promotions in ways that may boost profits while also satisfying customers.

Consumers in this context can fit either of two descriptions, says Ozge Sahin, an associate professor at the Johns Hopkins Carey Business School and one of the three authors of the study.

- "Value-conscious" consumers appreciate a sales promotion solely for the cost savings it provides
- "Deal-prone" shoppers are not only more likely to buy a product during a sales promotion because of the monetary savings, but also derive a psychological uplift from the satisfaction of getting a good deal

Deal-prone consumers are key to whether a retailer can present a conditional promotion and expect customers to spend more. When a large percentage of potential buyers in a specific situation are deal-prone, that's a win-win, the study says. The retailer moves more product and takes in more profit, while shoppers enjoy the thrill of buying at a discount.

In circumstances with few deal-prone shoppers, however, offering a conditional promotion to entice customers to overspend may lead to lower profits for the seller, according to the paper, which uses an analytical model created by Sahin and her colleagues.

Additionally, the paper's findings refute the common belief that sales promotions are best applied to unpopular products.

"We found that even when customers highly value the product—and they're deal-prone, which is a critical factor—the seller can still use a conditional promotion to increase his profit," says Sahin, an expert in pricing and revenue management and supply-chain management.

The paper indentifies two basic forms of conditional sales promotion:

- In an "all-unit discount," the reduction applies to all items sold if the purchase meets a minimum eligibility requirement—for example, buy two or more stuffed animals and get 25 percent off the total price
- In a "fixed-amount discount," the final cost is reduced by a predetermined amount if the required minimum is purchased—that is, buy two or more shampoos and cut the total price by \$3

"A key finding from the research is that one kind of discount can prove more profitable than the other, depending on the market," Sahin says. "When consumers aren't willing to pay the regular price, the all-unit discount performs better, because only the all-unit discount can induce people to buy more than the minimum that's required for the discount. On the other hand, when customers are already willing to buy something at the regular price, the fixed-amount discount brings more profit to the seller."

She adds: "The important implication is that retailers should use an all-unit discount to stimulate sales of a high-price or newly launched item, while the fixed-amount [discount](#) is more effective as a frequent promotion of a low-price or established, brand-name product."

As for markdowns, another staple of retail sales, conditional discounts tend to outperform them as profit generators for sellers, the study says. The appeal just isn't the same for the deal-prone. Buying a marked-down item, the savings notwithstanding, isn't as uplifting as, say, getting \$5 off on the purchase of two shirts.

The authors say their study is the first to their knowledge that analyzes the different ways consumers respond to conditional discounts. It focuses on products with a relatively short shelf life, such as food, fashion accessories, and seasonal items, which retailers eventually would want to clear from their shelves through methods that include conditional promotions.

More information: Thunyarat Bam Amornpetchkul et al. Conditional Promotions and Consumer Overspending, *Production and Operations Management* (2018). [DOI: 10.1111/poms.12877](https://doi.org/10.1111/poms.12877)

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