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Study: Where to place discounted products relative to regularly priced products to maximize sales

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Researchers from University of Connecticut, Texas A&M University, University of Colorado at Boulder, and University of Florida published a new *Journal of Marketing* article that examines whether price promotions on some products differentially impact demand for other products depending on their relative locations within a display.

The study, forthcoming in the *Journal of Marketing,* is titled "The Negative and Positive Consequences of Placing Products Next to Promoted Products" and is authored by Christina Kan, Yan (Lucy) Liu, Donald R. Lichtenstein, and Chris Janiszewski.

Consumers select from a variety of competing products in multi-product displays. Some products are discounted while others in close proximity are regularly priced. For example, Costco offers items that are not regularly stocked at a reduced price to train shoppers to enter the store in search of "deals," as if on a treasure hunt. Finding these deals exposes customers to proximal products in other categories, which allows Costco to capture sales from people not interested in the discounted product.

The key question is: Do price promotions on some products differentially impact demand for other products depending on their relative locations within a display? This new study concludes that the answer is yes.

The researchers say that "When the proximal items (i.e., those placed nearby) and distal items (i.e., those placed farther) are strong substitutes for the promoted item, we find that a price promotion decreases the sales of proximal products relative to distal products. This is known as a negative proximity effect. However, when the proximal and distal items are weak substitutes for the promoted item, the promoted product increases the sales of proximal products relative to distal products. This is known as a positive proximity effect. In this case, the proximal product benefits from the increased attention by virtue of being close to the promoted product."

The research team finds evidence for these sales patterns across eight studies. In one study, they analyze yogurt sales at a retail grocer. When non-promoted products are strong substitutes for the promoted product, a 1% decrease in the price of the promoted product results in a .25% decrease in sales of proximal products, but there is no change in sales of distal products. However, when non-promoted products are weak substitutes for the promoted product, a 1% decrease in the price of the promoted product results in a .10% increase in sales of proximal products. Again, there is no change in sales for distal products.

Insights from the studies

The promotion–proximity results provide three insights.

- It is often assumed that price promotions draw attention toward the promoted brand and away from all other brands. In contrast, these results show price promotions direct attention to the promoted brand and the brands that surround it (i.e., attention spills over).
- Prior research assumes that goal-directed consumers will search a product display so that all appropriate products enter a consideration set before the purchase decision is made. In contrast, this analysis indicates that a price promotion can increase (or decrease) the likelihood of a proximal (or distal) product entering the consumers' consideration set.
- Prior research assumes multiple purchases come from a single consideration set. In contrast, this research argues that consumers can search multiple locations in a product display, with each location generating a unique consideration set and purchase opportunity.

Opportunities for marketing managers

Understanding how attention spills over to proximal products creates several opportunities for marketing managers.

1. Managers may consider product subcategory boundaries as opportunities to exploit positive proximity effects. Consider butter cookies and chocolate chip cookies bordering each other on a shelf. Placing a border brand on price promotion should draw increased attention to a less substitutable proximal item and increase the probability of a positive proximity effect.

   Managers can take advantage of this to direct attention to full-priced higher margin brands. Taking this further, positive proximity effects may also occur for non-substitutes (e.g., refrigerated yogurt and refrigerated desserts).

2. Retailers commonly conceive of loss leaders (e.g., milk) as items used to increase exposure to other non-promoted product categories in the store (e.g., product categories they pass on the way to the dairy aisle). However, a loss leader can also be used to introduce customers to new products within a product category. For example, imagine discounting a product like almond milk and surrounding it with novel flavors/versions of non-promoted items (e.g., oat milk, soy milk) to induce trial of those new items. In this sense, price promotions benefit the promoted brand and also increase exposure to other high margin items in the product category.
3. Some products, such as wines on a shelf, are organized by price levels. For categories in which substitutability is defined by price, placing any item on sale would have a negative influence on proximal items. Because consumers have little expectation of which cabernets should be located next to each other, managers may place lower margin items proximal to price-promoted items during the promotion.

More information: Christina Kan et al, EXPRESS: The Negative and Positive Consequences of Placing Products Next to Promoted Products, *Journal of Marketing* (2023). DOI: 10.1177/00222429231172111

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