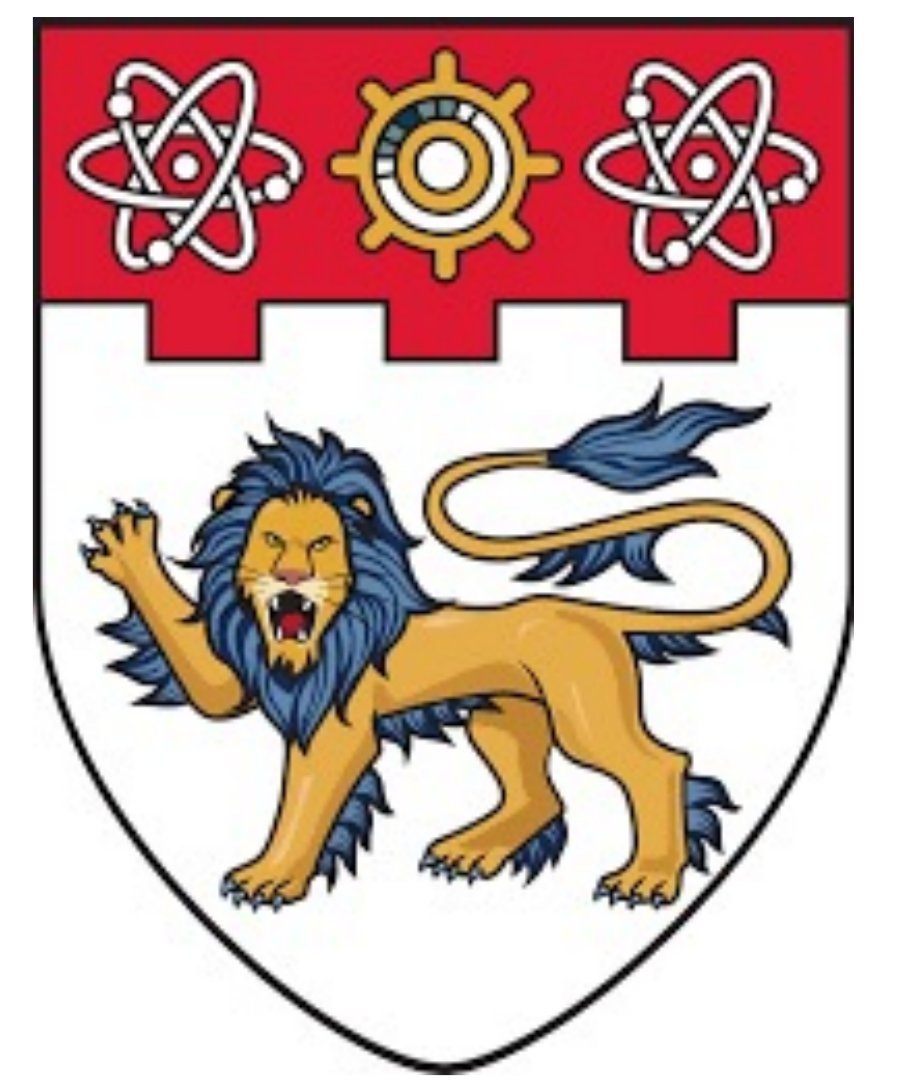




How Threshold versus Capped Percentage Promotion Framings affect Coupon Usage

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Abstract

We examined the effects of two common types of conditional promotion framings on consumers' coupon use. A **threshold discount** is applicable only when the spending amount exceeds a threshold, while a **capped percentage discount** sets a maximum dollar value. Results from three pre-registered studies ($N = 1,477$) showed that consumers evaluated the offer as better and were more likely to use a coupon with a threshold discount than a coupon with a comparable capped discount, even though the threshold discount is dominated by the capped discount. The effect was robust in different consumption contexts with varying sizes of offers, regardless of whether the spending amount was known. We further showed that consumers perceived the threshold discount as less fair, and the effect could not be eliminated by focusing peoples' attention on the total savings. The findings of dominance violation are inconsistent with standard economic models of choice.

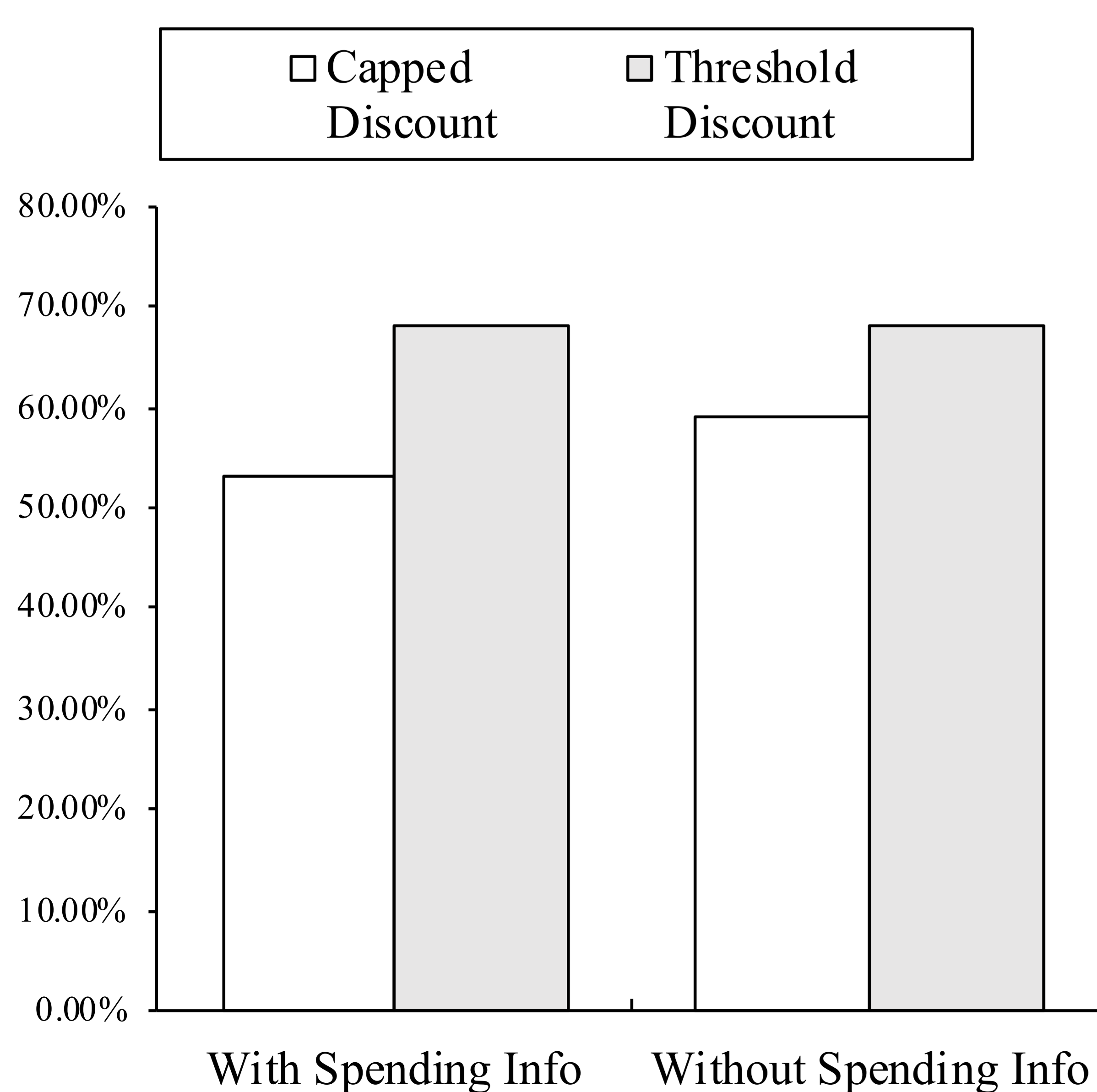
Study 1: Ride Hailing

- Participants ($n = 403$, Canadian Prolific) were asked to decide whether to take a bus or to hail a taxi to go home from work.
- 2 X 2 between-subjects design
- Coupon Messages
 - Threshold: \$5 off a ride. On a ride of \$10 or more.
 - Capped: 50% off a ride. \$5 max discount per ride.
- Spending Information
 - Half of the participants were told "If you hail a ride, you will spend \$20 on average" and half were not.
- Measures
 - Conversion Rate: Would you use the offer and hail a ride using Uber (1)? Or would you take a bus (0)?
 - Offer Evaluation: Is the offer shown above a bad or good deal? (1 - bad; 9 - good)

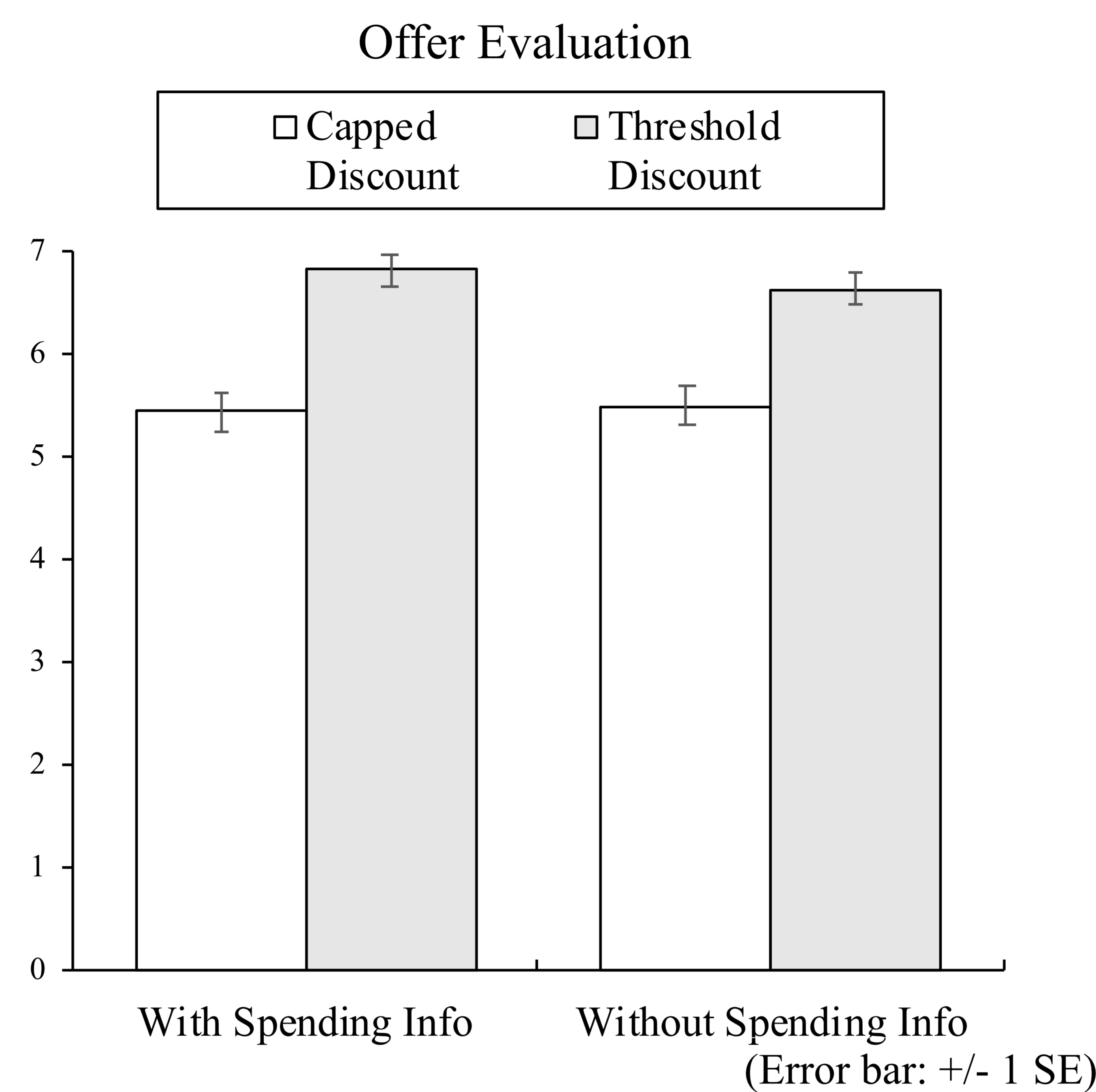
Study 1 Results

- We found a main effect of promotion framing but not spending information, and no interaction effect.

Conversion Rate

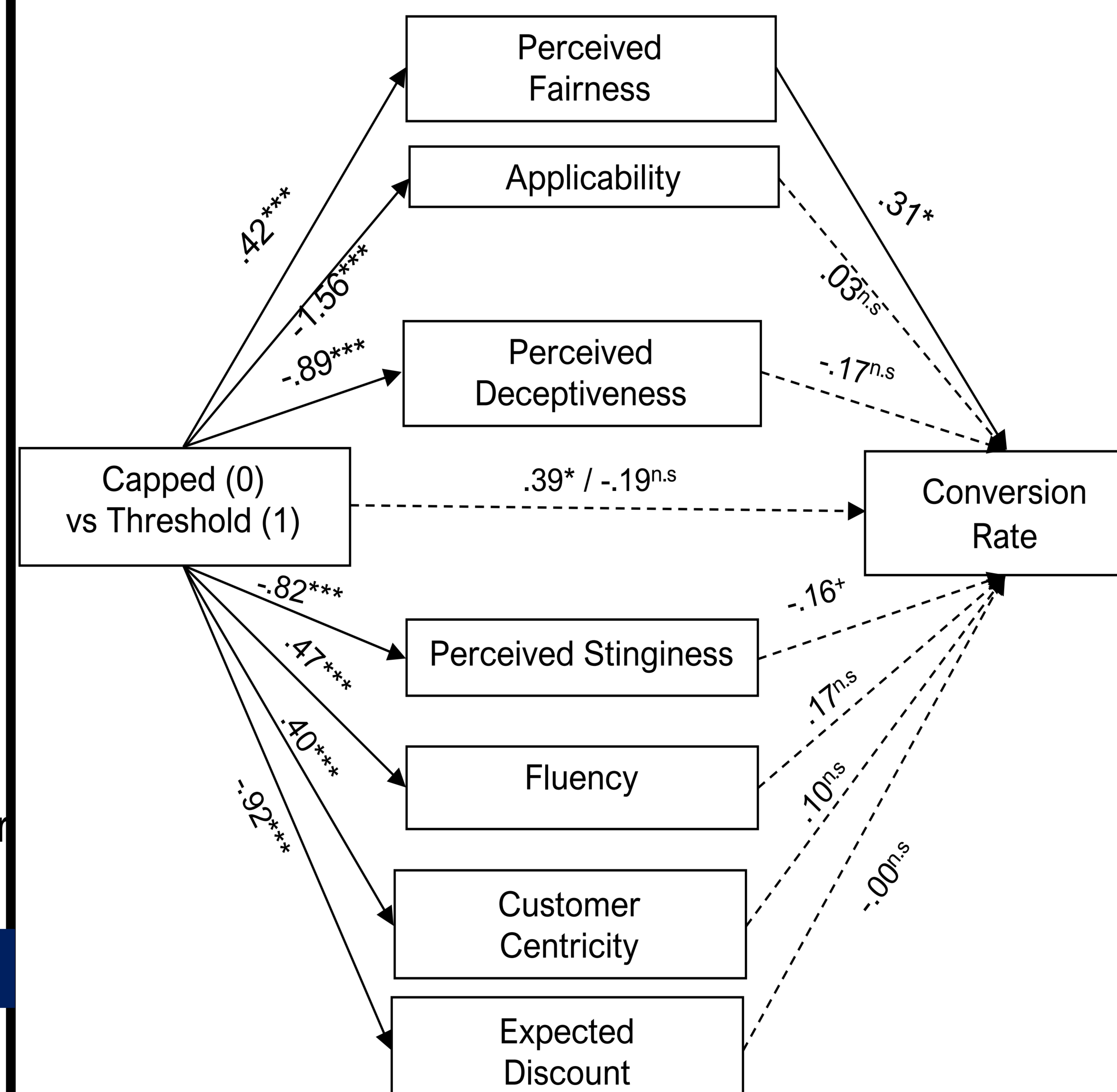


Study 1 Results



Study 2: Mechanism

- We used the same design as Study 1 with additional mechanism measures ($n = 771$, US Prolific). Only the indirect effect of perceived fairness is significant.



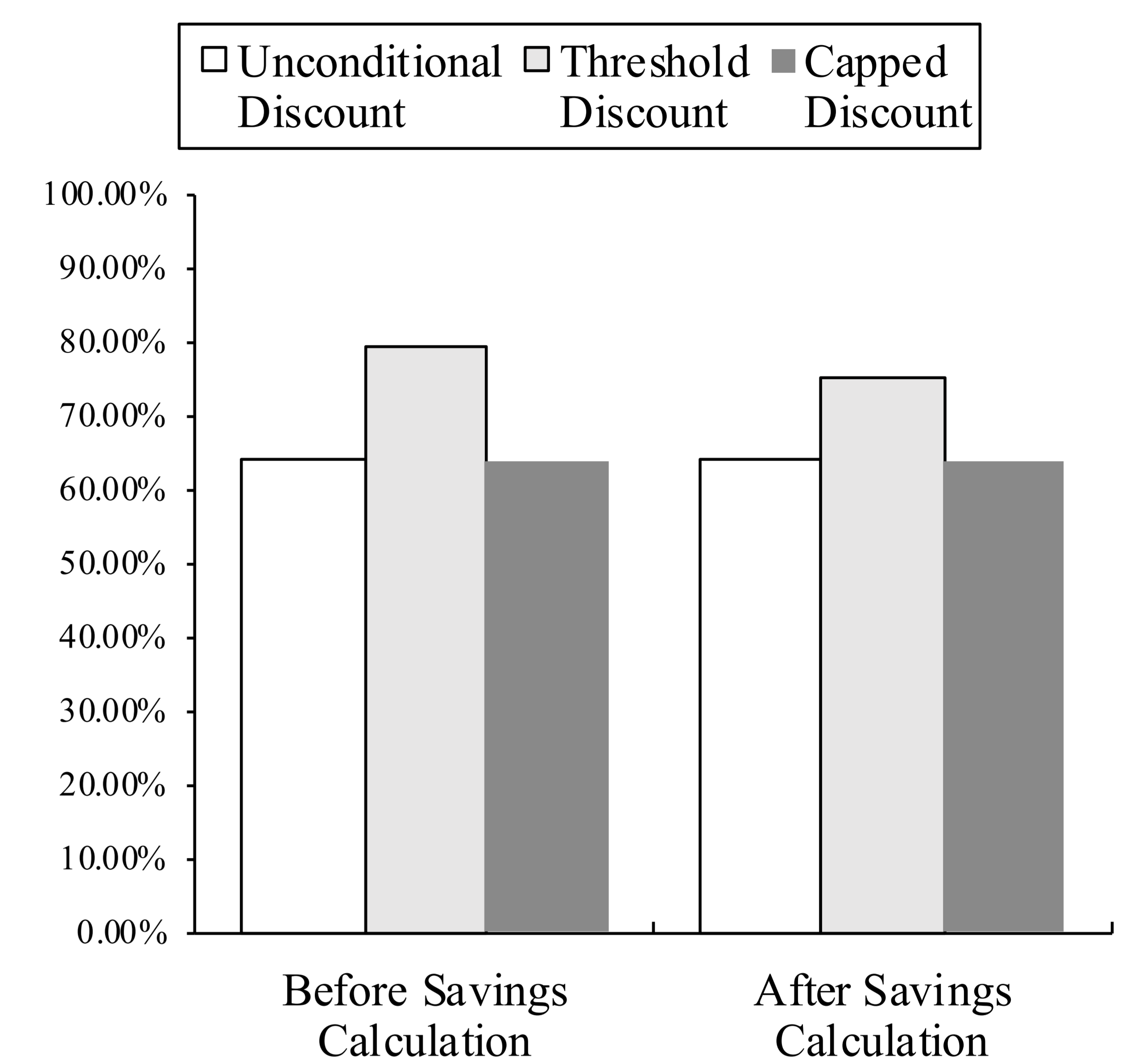
Study 3: Food Ordering

- We added an unconditional discount condition and examined whether explicitly asking participants to calculate the discount value would eliminate the effect
- Participants ($n = 303$, US Prolific) were asked to imagine they would either cook at home or order food. If they order food, their typical cost would be \$40.
- Three Coupon Messages (Between-Subjects)
 - Unconditional: Enjoy \$10 off
 - Threshold: Enjoy \$10 off on orders of \$25 or more
 - Capped: Enjoy 40% off. \$10 max discount per order
- Measures
 - Conversion Rate (Before / After Calculating Savings)
 - Offer Evaluation (Before / After Calculating Savings)

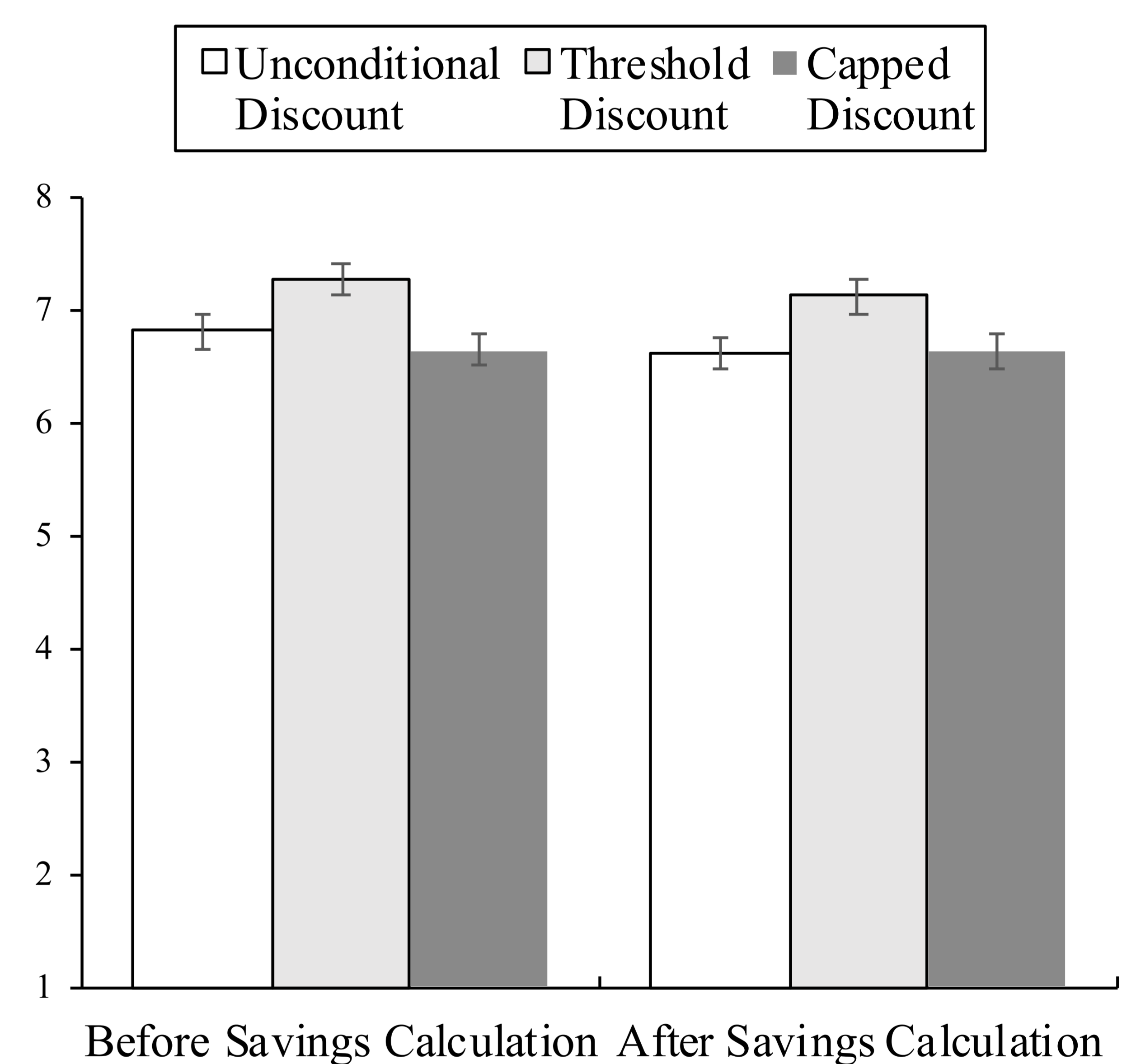
Study 3 Results

- Threshold discount was preferred to the other two. The effect was not because participants did not pay enough attention to the total savings.

Conversion Rate



Offer Evaluation



Discussion

- Across three studies, we found that consumers preferred the threshold discount, which was dominated by but was perceived as fairer than the capped percentage discount, inconsistent with standard economic models of choice.
- Our other studies showed that the effect was attenuated when the threshold was high, and we ruled out the exclusivity effect as an alternative explanation (Barone & Roy, 2010).
- Practically, the findings help company managers understand consumers better and use a better price promotion, which may be especially important at the current economic recovery stage.
- In a separate project, we find that sometimes threshold discounts are preferred to unconditional discounts, due to anchoring (Du et al., in progress).

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