



ifelgoodsTM

Frictionless Rewards

Reward-Based versus Discount-Based Promotions:

The Impact on Brand
Equity and Purchase
Intention

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I. EXECUTIVE SUMMARY

A lot of research has been done on sales promotions, which have always been a key marketing and revenue generating tool. According to Battberg and Neslin's 1989 study, sales promotions can be categorized into two major classes: monetary promotions (price discounts, coupons, etc) versus non-monetary promotions (typically a gift or reward). While monetary promotions are more traditional, used widely by organizations to boost short-term sales, research has shown they may negatively impact the perception of the brand quality in the long-term.

At Ifeelgoods, and throughout the course of this white paper in particular, **we decided not only to explore but to also document the effects of discount-based versus reward-based promotions as it relates to brand equity and purchase intention through a random consumer survey.**

We then further **analyzed our findings to measure the impact of the promotions on two main consumer shopping behavioral patterns**, (shopper motivation and online shopping frequency) to create a broader and more comprehensive scope for comparison:

- **HOW DO DISCOUNT-BASED AND REWARD-BASED PROMOTIONS AFFECT BRAND EQUITY—I.E. THE LONG-TERM PERCEPTION OF A BRAND'S IMAGE?**
- **WHAT ARE THE EFFECTS OF ONLINE DISCOUNT-BASED AGAINST REWARD-BASED PROMOTIONS WITH REGARD TO CONSUMER PURCHASE INTENTION?**
- **DO THESE RESULTS VARY FOR DIFFERENT TYPES OF CONSUMERS?**

KEY INSIGHTS:

- Reward-based promotions outperform discount-based promotions by over **21% for positive brand image creation**
- More specifically, reward-based promotions exceed those of discount-based promotions by over **42% for brand differentiation**
- Reward-based promotions also outperform discount-based promotions by over **13% for purchase intention**

KEY RECOMMENDATIONS:

- Marketers should **focus on offering reward-based promotions** rather than discount-based promotions
- **Reward-based promotions are more effective than discount-based promotions** especially for:
 - Companies whose consumer base is mostly composed of **frequent shoppers**
 - Companies whose consumer base is mostly composed of **utilitarian shoppers**



II. WHAT ARE REWARD-BASED AND DISCOUNT-BASED PROMOTIONS?

One of the four essential elements of the marketing mix, sales promotions are a collection of motivational tools used to incentivize consumers to make repeat purchases.

Not only do sales promotions aim to achieve greater purchase intention, but they also impact brand equity by creating greater brand value and engagement among customers and distributors.

Battberg and Neslin's 1989 study distinguishes between two major types of consumer sales promotions: monetary and non-monetary.

- **Monetary promotions include price deals**, cent-offs (both on and offline), or in-store coupons or rebates. They directly impact the price that the consumer will pay for the product.

- On the other hand, **non-monetary promotions**—such as gifts, premiums and sweepstakes— **do not impact the price of the product or service for the consumer.**

The goal of this whitepaper is to compare the effects of monetary and non-monetary promotions on brand equity and purchase intention.

To do so, we've chosen to focus on the two most common types of promotions for these two categories:

MONETARY PROMOTIONS	NON-MONETARY PROMOTIONS
For monetary promotions, this will be price discount. The psychological rationale behind a price discount is to provide the consumer with a sense of receiving additional value by paying below the base price.	For non-monetary promotions this will be the case of free gift with purchase, which consists of a premium given with the purchase of a product or service. The rationale behind this can be considered two-fold as it not only drives the user's purchase intent with a complimentary reward, but it also creates a higher perceived brand value by not marking down the price of the original product.

• **HOW DO DISCOUNT-BASED AND REWARD-BASED PROMOTIONS AFFECT BRAND EQUITY—I.E. THE LONG-TERM PERCEPTION ON BRAND ASSOCIATION—IN THE MINDS OF CUSTOMERS?**

• **WHAT ARE THE EFFECTS OF ONLINE DISCOUNT-BASED AND REWARD-BASED PROMOTIONS ON PURCHASE INTENTION (I.E. CONVERSION RATE)?**



III. SHOPPER SURVEY

To assess the impact of discount-based vs. reward-based promotions on brand image and purchase intention, Ifeelgoods decided to design and conduct a 1,000 person online survey.

Two versions of the survey were created and respondents were randomly assigned to one version of the survey, giving each user a 50/50 chance to see Survey 1 and a 50/50 chance to see Survey 2.

WHAT IS BRAND EQUITY?

In this study, we've chosen to focus on two dimensions of Brand Equity, discussed at length by Aaker (1992)* and Keller (1993)* and defined as:

- **Perceived Quality.**
- **Brand image**, which relates the meaning of the brand back to the consumer.

Prior to answering questions about the promotion itself, the respondents were asked **16 questions** to assess their **shopping frequency** and **shopping orientation (utilitarian vs. hedonic)**.

They were then asked about the following:

- **The quality of the promoted brand (first dimension of brand equity, i.e. perceived quality)**
- **The image of the promoted brand (first dimension of brand equity, i.e. brand image)**
- **Whether or not they would consider buying the product (i.e. purchase intention).**

In order to prevent any cognitive bias, one of the prerequisites of this study was to try and ensure that the respondents were not exposed to the promoted brand prior to the survey. We concluded that it was essential to the study that participants avoided previous brand exposure so as to not impact the perceived quality and associations unique to each brand.

As a result, we did not mention any brand in the banners we used for the experimental research.

The sales promotions used for this study were built using a made-up brand created specifically for this survey.

In order avoid any pre-conceived bias, the incentive used in the ad banner was set to the same value for both the monetary and the non-monetary promotions.

- For the monetary incentive, a discount of 15% on the price (equivalent to a \$10 discount) was used on the promoted product.

- For the non-monetary incentive, we chose a reward that would be in-line with the promoted product. Moreover, as the incentive value had to be the same as the monetary discount, the reward value had to be around \$10. As a result, we decided that the reward offered in the promotion would be a music album.

TWO DIFFERENT SURVEYS:

The construction of both surveys was the same—except for the promotion that the respondents were exposed to.

- In survey 1, respondents were exposed to a **discount-based promotion**.

- In survey 2, respondents were exposed to a **reward-based promotion**.

16
questions

To make sure that the respondents understood the survey within the context of an online promotion, we positioned it as an overlay banner on a website. In order to make the message as clear as possible, Ifeelgoods only included the following in the banner:

- The **message**: “Buy our Bluetooth speakers, special offer: \$10 off” for the discount-based promotion, and “Buy our Bluetooth speakers and receive the music album of your choice for free” for the reward-based promotion
- A **picture** of the product
- A **clear reminder** of the promotion, highlighted in yellow
- A **call to action**: “Buy Now”.

BANNER A: DISCOUNT-BASED PROMOTION



BANNER B: REWARD-BASED PROMOTION



In order to assess the impact of certain consumer characteristics on our results, we asked the respondents to answer a few questions about their shopping habits.

1. Utilitarian Shopping vs. Hedonic Shopping

With **utilitarian shopping** is defined as that which “**results from some type of conscious pursuit of an intended consequence,**” utilitarian shoppers are task-related, rational, and look to be as efficient as possible throughout the shopping process.

Hedonic shopping motivation, meanwhile, is defined as, “**more subjective and personal than its utilitarian counterpart and resulting more from fun and playfulness than from efficient, rational task completion**”.

Given these two types of shoppers, respondents were asked to choose which of the following sentences described them the most in order to help Ifeelgoods assess their shopping orientation:

A) “When I go shopping, I am rational and my goal is to be effective”

B) “I think shopping is fun; I enjoy shopping.”



2. Shopping Frequency

With the average shopping frequency defined as making more than 15 online purchases a year, we defined frequent shoppers as users who made more than 15 online purchases a year and non-frequent shoppers as those who purchased items online less than 15 times a year.

To more fully determine their shopping frequency, respondents were asked to assess how many times a year they engaged in online shopping by answering the following question:

How many times did you shop online in the past 12 months?

3. Perceived Quality

We set out to evaluate these items using the five-point Likert scale, with a response of 1 meaning 'strongly disagree' and 5 meaning 'strongly agree'.

The perceived quality of the promoted brand was then evaluated using the following four statements:

- The likely quality of the promoted brand
- The likelihood that the promoted brand is reliable
- The likelihood that the promoted brand will be satisfactory
- The quality of the promoted brand

4. Brand Image

Brand image was determined through the following four statements:

- The promoted brand has a strong personality
- The promoted brand has a strong image
- The promoted brand is an attractive brand
- The promoted brand differs from its competitors

5. Purchase Intention

Purchase intention was evaluated through the following three statements:

- I would purchase this product
- I would consider purchasing this product
- With the addition of the special offer (\$10 off or a free music album), I would consider purchasing this product.



IV. SHOPPER SURVEY RESULTS

1. Impact of promotion type on brand equity

The **reward-based promotions** generated the following responses for all statements:

- The reward-based promotion resulted in a **14% increase in perceived quality** compared to the discount-based promotion.
- The reward-based promotion also resulted in a **21% increase in brand image rating** compared to the discount-based promotion.

The previous statement, "This brand differentiates from its competitors" is a particularly interesting one as it produces **the highest difference in results** between the two types of promotions: **42%**.

The table below provides a recap of the average responses (1 to 5 scale):

	Price Based	Gift Based
The likely quality of the brand is high	2,08	2,38
The likelihood that this brand is reliable is high	2,11	2,43
The likelihood that this brand will be satisfactory is high	2,21	2,59
This brand must be of good quality	2,21	2,41
Perceived Quality	2,15	2,45
This brand has a strong personality	1,62	1,71
This brand has a strong image	1,60	1,91
This brand is an attractive brand	1,75	2,07
This brand differentiates from its competitors	1,58	2,25
Brand Image	1,64	1,99

2. The impact of promotion type on purchase intention

The reward-based promotion resulted in 13% higher purchase intention.

The table below is a recap of the average responses (Likert scale).

	Price Based	Gift Based
I would purchase this product	2,08	2,04
I would consider purchasing this product	2,09	2,45
Considering the special offer (\$10 off / free music album), I would consider purchasing this product	2,31	2,45
Purchase Intention	2,04	2,31



3. Impact on consumer shopping orientation and shopping frequency

For utilitarian shoppers, the reward-based promotion resulted in a **21% higher purchase intention** than the discount based promotion. Hedonistic shoppers, meanwhile, only saw a **difference of 5%**.

	Hedonic Shopper	Utilitarian Shopper
Price Based		
I would purchase this product	1,90	1,56
I would consider purchasing this product	2,20	2,00
Considering the special offer (\$10 off), I would consider purchasing this product	2,40	2,24
Purchase Intention	2,17	1,93
Gift Based		
I would purchase this product	1,87	2,15
I would consider purchasing this product	2,43	2,45
Considering the special offer (free music album), I would consider purchasing this product	2,52	2,39
Purchase Intention	2,28	2,33

For frequent shoppers, the reward-based promotion resulted in **19% higher purchase intention** than the discount based promotion; whereas for non frequent shoppers, **the differential was 5%**.

	Frequent Shopper	Non Frequent Shopper
Price Based		
I would purchase this product	1,70	1,72
I would consider purchasing this product	2,04	2,17
Considering the special offer (\$10 off), I would consider purchasing this product	2,22	2,44
Purchase Intention	1,99	2,11
Gift Based		
I would purchase this product	2,22	1,79
I would consider purchasing this product	2,50	2,38
Considering the special offer (free music album), I would consider purchasing this product	2,41	2,50
Purchase Intention	2,38	2,22



V. KEY TAKEAWAY POINTS FOR MARKETERS

Being able to understand the different effects online promotions can have and knowing how to successfully manage them is paramount to digital marketers and marketing professionals in general.

While marketers have traditionally used sales promotions as objectives to drive short-term sales, it is important to stress the fact that these promotions can also have a significant impact in the long run as well, particularly with regards to brand equity.

This study offers empirical evidence that, contrary to discount-based promotions, reward-based promotions result in:

- **Higher purchase intention (short-term);**
- **And greater brand equity (long-term).**

Of particular note is the fact that reward-based promotions result in significantly higher brand differentiation (an increase of 42% compared to discount-based promotions). Marketers at organizations with competitive differentiation as a primary objective should then use reward-based promotions rather than discount-based promotions in order to achieve the best results possible.

This study also highlights the two consumer characteristics that serve as key indicators of behavior when measuring the efficiency of reward-based vs. price based promotions: shopping orientation and shopping frequency.

In conclusion, companies whose consumer base is mostly composed of frequent and utilitarian shoppers should rely heavily on reward-based promotions.



ABOUT THE AUTHOR

Marie Lhermitte - Product Marketing Manager, Ifeelgoods

Marie Lhermitte is in charge of product marketing at Ifeelgoods. Prior to Ifeelgoods, Marie Lhermitte was an assistant brand manager at Procter & Gamble and a business analyst at BNP Paribas. She graduated from HEC Paris in 2013 and holds a degree in Econometry from the University of Paris Dauphine.

ABOUT IFEELGOODS

Ifeelgoods provides a frictionless platform that enables marketers to instantly reward their audiences in a variety of solutions – Commerce, CRM, Social Media, Shopper Marketing, Loyalty and others. Consumers can directly receive rewards from 100+ integrated apps including Facebook, Mailchimp, Salesforce, SurveyMonkey, Paypal and Zendesk. Gifts delivered come from Ifeelgoods' 100,000+ rewards catalog with content that ranges from movies, songs, games, apps, newspaper subscriptions, and gift cards. Brands like Walmart, Gap, L'Oreal and 300 other clients have used the Ifeelgoods platform to boost customer acquisition and retention.

Learn more: <http://www.ifeelgoods.com/>

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Contact Us: contact@ifeelgoods.com

