

## **Cash Rewards Effect on Unplanned Buying Behaviors - Watch Your Wallet Carefully!**

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### **Extended Abstract**

Price promotions come in various forms, such as buy-one-get-one-free offers, coupons, and of course price discounts. Cash reward is a new popular promotional tool used at many famous department stores, apparel retailing chains, and grocery stores. Consumers can obtain a rebate when their purchase passes a threshold set by the company, as in, "purchase over \$100 to get a \$10 cash reward." Similar to the cash rebates applied in the automobile industry, cash rewards uses the mechanism of the silver lining principle (Thaler 1985) to segregate a large loss of purchase and a small gain from rebate to increases consumers' utility. However, distinguished from other price promotions, cash rewards provide consumers freedom to choose any products within the store rather than a specific product. Cash rewards, like the conditional discount of coupons, give rebates only to consumers achieving the purchasing threshold.

Facing free-choice and the conditional-discount promotion, consumers may be attracted to buy merchandise in excesses their original shopping budget. Those consumers perceive gains from getting the cash reward if they reach the threshold and perceive losses from not taking advantage of the offer if they do not. Such perception generates an "artificial buying desire." This artificial buying desire can be conceptualized as one dimension (or "type") of deal proneness (Lichtenstein, Netemeyer, and Burton 1990) but focuses on proneness to cash rewards. However, no current scale has been developed to measure this construct. Thus, the first objective of this article was to examine and measure the artificial buying desire by incorporating insights from motivation, expected benefit, and expected regret.

In addition, artificial buying desires are generated not only from the consumer's inner needs but also from external factors created by sellers such as: stimulation of cash rewards. Therefore, to investigate how external factors influence artificial buying desire is the second objective of this article. Furthermore, most of the products that consumers buy due to artificial buying desire are unplanned. Thus, what kinds of products are more likely to stimulate consumers to buy as unplanned purchasing items is the third objective of this study.

In order to achieve the above-mentioned objectives, three factors affecting artificial buying desire are examined in this study. One is from the consumers' perspective - the expenditure to threshold ratio, which implies the amount of money spent in a store under cash rewards. For example, when a consumer has spent \$90 and \$10 cash rewards is offered for purchases over \$100, the expenditure to threshold ratio would be 90%. This study expects that the expenditure to threshold ratio can positively influence artificial buying desire. Consumers perceive larger sunk cost including money, time, and effort when they have spent more money (Soman and Gourville 2001).

This helps to increase the motivation towards gaining the cash rewards that can offset sunk costs.

The second one is controlled by firms – threshold. Different thresholds affect consumers' artificial buying desire even when the percentage of the cash rewards provided is equal. For example, when two types of cash rewards with the same 10% reward are provided: (1) "purchase over \$100 to get a \$10 cash reward" and (2) "purchase over \$200 to get a \$20 cash reward." We expect that the latter one is more attractive. This is because consumers frame the outcome in dollar terms rather than percentage terms (Chen, Monroe, and Lou 1998).

The last one is product characteristics. When consumers have bought products on their shopping lists, having almost reached the offered threshold, product characteristics (preference and price) may influence consumers' decisions to continue shopping. This study expects that, while just matching the threshold, consumers are more likely (1) to buy a preferred product than an unwanted one and (2) to buy a lower-priced product than a higher-priced one, because they may perceive a higher transaction utility from the unplanned purchase

In this research, a laboratory experiment was conducted to collect data. We administered a pretest to find consumers' product preferences, and used a computer-based simulation of a shopping situation. 208 undergraduate students were randomly assigned to one of eight conditions in a 2 (the expenditure to threshold ratio) x 2 (the threshold of cash rewards) x 2 (alternative product price) between-subjects experimental design. Another variable (product preference) is manipulated as a within-subject design. During the procedure, artificial buying desire and unplanned purchase behaviors were measured on a 5-point Likert-type scale.

Results revealed that when participants are offered cash rewards, sunk cost was indeed taken into consideration. The Higher the expenditure to threshold ratio, the greater the artificial buying desire was aroused ( $Mean_{(90\% \text{ ratio})} = 3.25$  versus  $Mean_{(70\% \text{ ratio})} = 2.80$ ,  $F_{(1, 191)} = 17.744$ ,  $p = 0.000$ ). However, the threshold of cash rewards did not affect participants' artificial buying desire ( $Mean_{(high \text{ TH})} = 3.04$  versus  $Mean_{(low \text{ TH})} = 3.03$ ,  $F_{(1, 191)} = 0.078$ ,  $p = 0.780$ ), which is in accordance with Grewal and Marmorsteins (1994) finding that consumers have tendency to translate dollar savings into percentage discounts. Artificial buying desire indeed influenced participants' unplanned buying behaviors ( $F_{(1, 191)} = 6.022$ ,  $p < .05$ ), and product preference strengthened consumers' purchases ( $Mean_{(preferred)} = 3.36$  versus  $Mean_{(non-preferred)} = 1.75$ ,  $F_{(1, 187)} = 6.082$ ,  $p < .05$ ) while product price did not influence consumers' decisions ( $Mean_{(high \text{ price})} = 3.06$  versus  $Mean_{(low \text{ price})} = 3.01$ ,  $F_{(1, 187)} = 1.378$ ,  $p = 0.242$ ).

The major findings of this study are as follows: First, cash rewards do increase the possibility of occurrence of unplanned purchases, especially when a consumer's shopping expenditure approaches the offer's threshold. In addition, if a consumer's favorite products are provided, unplanned purchase will happen easily. However, when consumers decided to exceed the threshold, products price may not be taken into consideration. Therefore, we suggest firms to use cash rewards with different thresholds, various products, and multiple product prices. Furthermore, we also recommend consumers to consider budgeting and list making in order to avoid unplanned buying and over spending. Besides, to translate dollar discounts into percentages would also be helpful to judge whether it's a good deal.

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## Endnotes

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