**The moderating effect of perceived risk level on the effectiveness sales promotion Types**

**Case study of Syrian Market**

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**Abstract:**

The purpose of this paper is to examine perceived risk moderate consumers’ evaluations of different types of promotions including Premiums and price discount. This research uses a cross-sectional experiment to type of promotion, perceived risk and measures consumers value perceptions and purchase intentions. The results obtained suggest that at high perceived risk level and low level price discounts are more effective than premium. The findings offer guidance to managers who might benefit from knowing what is the best strategy to promote their products and services. Our work also extends prior related research because, to this date, the effectiveness of price discounts and premiums across perceived risk level is an under-researched issue.

Keywords: premiums, price Discounts, perceived risk

**Paper type**: Research paper

1. **Introduction:**

Sales promotion has become a pivotal element in the marketing communication mix, because it is very effective in the short term (sales volume increasing), and in the long term (brand equity building), and support the other element in promotional mix like advertising. Kotler &Armstrong, (2012) show Whereas advertising offers reasons to buy a product or service, sales promotion offers reasons to buy now.

The marketers spend long time in design their promotional strategy, because there are many variables moderate the effective sales promotion tools, we can be arranging these variables in three categories:

1. Variables related to promotional offer: like promotional benefit Depth (Blazon & Delgado, 2009) and promotion offer frame (Delvecchio.et al, 2007).
2. Variables related to Product: like product type (Chanson. etal, 2000), Brand type (Montaner.et al, 2011), perceivedperformance risk (Lowe, 2010).
3. Variables related to consumer: like deal Proneness (Rao, 2009), price conscious (Plazon & Delgado, 2010).

In this paper, we will study how the perceived risk level and brand awareness moderate the effectiveness of price discount and premiums.

1. **Consumer response to monetary and nonmonetary promotions:**

Sales promotions have often been classified by researchers as monetary or nonmonetary (Chandon et al., 2000), For example, a price discount (e.g. 50 percent off) would be a monetary promotion and free gift would be a nonmonetary promotion.(Zheng.et al,2005), for example argue that price discount is a temporary reduction of the list price of the product, while (d’Astous & Jacob,2002) show that free gift is simply a product or a service offered free or at a relatively low price in return for the The implications of Prospect Theory Value Function (Kahneman & Tversky, 1979) for sales promotions provide plausible explanations for different consumer reactions to different promotional framings. Based on this theory, consumers perceive a promotion relative to a subjective reference point, (e.g., the reference price of the product). Then it is probable that a monetary promotion would be considered as a reduction in the “loss” because it reduces the purchase price, while a nonmonetary promotion would be viewed as a “gain” obtained in the transaction. The logic of this reasoning is clear. People tend to evaluate price discounts in relative terms because both the purchase price and the change are expressed in monetary terms. However, when consumers are offered a free gift, they do not have an accurate understanding of its pecuniary value, which makes it more difficult to discount its value from the product price. This may inhibit consumers’

tendency to evaluate the promotion in relation to the focal product, or its price. Therefore, the type of promotion determines the mental accounting conducted, which is a segregate evaluation in the case of free gift, and an integrate evaluation when analyzing price discounts. These notions of integration or segregation resemble the types of reasoning suggested by (Nunes &Park,2003) in a sales promotions context. The use of discounts place a greater emphasis on price, leading people to assess the incentive relative to what they pay (relativistic and quantitative reasoning), while free gift takes the focus away from price (absolute and qualitative reasoning). Consequently, the fact that the promotional framing (monetary or nonmonetary) determines the difficulty of its analysis leads to the conclusion that two promotional tools with an equal promotional benefit are evaluated differently.

For example, (Sinha & Smith 2000) showed that the transaction value for three economically equivalent promotions could be different, being highest for price promotion (50% off), followed by extra-product promotion (buy one, get one free), and finally mixed promotion (buy two, get 50% off).

1. **The moderating role of perceived risk level:**

The evaluation of sales promotions tool is likely to depend on the type of brand used (e.g. whether high or low brand equity). Recognizing brand awareness is a component of brand equity has negative relation with perceived risk, previous research has shown that promotions involving high quality brands which have high awareness and low perceived risk level have significantly different effects from the same promotions using medium or low awareness brands and high level of perceived risk (Chandon .et al,2000; Montaner .et al,2011).

Blattberg and Wisniewski (1989) argued that those who buy lower quality brands are more price sensitive than the consumers of higher quality brands. Thus, promotions for lower quality brands only attract customers of similar or lower price brands. By contrast, promoting strong brands causes consumers to switch from a competing brand in greater numbers.

Chandon.et al (2000) concluded that non-monetary promotions are more effective than monetary promotions at low level of perceived risk, Lowe, (2010) shown that consumers prefer monetary promotions like price discount with high perceived risk product, and prefer non monetary promotion like extra free product with high brand awareness. Montaner.et al, (2011) concluded that consumers evaluate the free gift more positive with high brand equity product, above discussion lead to the following

 hypotheses:

**H1: At high perceived risk level:**

H1a: perceived value is higher for price discount than for premium.

H1b: purchase intentions is higher foe price discount than for premium.

**H2: At low perceived risk level:**

H2a: perceived value is higher with premium than price discount.

H2b: purchase intentions is higher with premium than price discount.

1. **METHODOLOGY:**

In this study 2 promotion type (price discount, premium) X 2 perceived risk (low, high) between-subjects experimental design was employed. The data for the empirical study were obtained from a controlled experiment involving undergraduate and post graduate students

* 1. **Pretests to the Treatments’ Design:**

Different pilot studies were conducted to choose the product category to be used and to select the discount levels and the premium.

The first pretest involved 72 subjects, and 9 products were pretested. These products were chips, toothpaste, soap, chocolate, coffee, shampoo, soft drinks, and noodles. Subjects responded to a set of items to measure the hedonic or utilitarian nature and the interest in these products. The hedonic or utilitarian nature of the product was measured with three 7-point semantic differential scales based on Wakefield and Inman (2003).

Soft drink was finally chosen as the focal product, (see Appendix I for scale items and Appendix II for further information about the pretest).

The use of a purely hedonic or utilitarian product was deliberately avoided to prevent possible congruencies between the promotion and the product that may enhance one type of promotion over another (Chandon, Wansink, & Laurent, 2000).

The second pretest involved 60 subjects and sought to guide the selection of the premium used as a nonmonetary incentive. A total of 6 different premiums were pretested. Four measures were obtained for each premium: attractiveness, value, utilitarian or hedonic nature, and perceived fit between the premium and the main product (Soft drink). These premiums were: a backpack, a t-shirt, an alarm clock, , football, Mug, sport cap. it was of interest to select a premium that was neither very

attractive nor especially unattractive to avoid the possibility that this characteristic would determine the effectiveness of one type of promotion over another.

The fit between the premium selected and the product used in the study was also controlled. The use of a purely hedonic premium was avoided because it could have enhanced the deal by making the benefits congruent (Chandon, Wansink, & Laurent, 2000) and because receiving something people could not justify buying for themselves may have enhanced the attractiveness of the premium (Nunes & Park, 2003).

Based on this procedure, the Football was selected, and the monetary value assigned to it was $2 (see Appendix II).

The purpose of third pretest is chosen tow brands for soft drink. one with high perceived risk and another with low perceived risk. This pretest was carried out with 70 students. six brands were pretest: Pepsi, Coca cola, Canada dry, Sport cola, Original, Ugarit. The brand awareness was measured by 5 points Likert scale based on (Yoo. et al,2000). Finally, Pepsi was chosen as low perceived risk and Original as high perceived risk.

**Table(I) Descriptions the promotional scenarios** **and sample distribution**

|  |  |  |
| --- | --- | --- |
| **Low level of brand awareness** | **High level of brand awareness** |  |
| **Premium** | **Price Discount** | **Premium** | **Price Discount** |
| 5 bottles of soft drink(2,25L)Regular price:3,9 $Foot ball | 12 cans of soft drink (330ml)Regular price:3,2 $50 percent discount | 4 bottles of soft drink(2,25L)Regular price:3,75 $Foot ball | 12 cans of soft drink (330ml)Regular price:4,2 $50 percent discount | **Promotional scenarios** |
| 160 | 155 | 160 | 160 | **Respondents number** |

* 1. **Measures:**

The dependent variables used to evaluate promotional effectiveness are perceived value, buying intention, and search intention. All of them were evaluated on a 5-point Likert scale, anchored by “Disagree Strongly” and “Agree Strongly.” Perceived value was measured with seven items based on Chandon, Wansink, and Laurent (2000) and d’Astous and Jacob (2002). The items were as follows: (1) I like this type of promotion; (2) I wish there were more promotions like this; (3) This promotion offer incites me to buy the product; (4) This promotion offer is of great value; (5) This promotion offer is original; (6) This promotion offer pleases me; and (7) This promotion offer interests me.

The two-item buying intention measure (anchored by “Very Low” and “Very High”) is based on Grewal, Monroe, and Krishnan (1998). The items were as follows: (1) The probability that I would consider buying this product is; (2) The likelihood that I would purchase this product is very high.

* 1. **Sample and Procedure:**

Data were collected from a 635-student sample at Higher institute of business administration (Syria). The students were distributed in four similar size groups which were actually practice groups of a subject. The information to contrast hypotheses was obtained by means of a survey adapted to the experimental conditions of each group. At the beginning of the session each participant was given a questionnaire with two differentiated parts and they were asked to complete the first part. After this, a PowerPoint presentation which simulated the purchase conditions of the product and brand corresponding to each group was performed in the classroom. At the end of the practical session, the participants had to answer the second part of the survey. The experimental groups and the treatments are summarized in table1.

* 1. **Manipulation Check:**

Manipulation check shows the adequacy of the treatments.

1. **The creditability of promotional scenarios:**

 the credibility of Each promotional scenario was tested with a 7-point semantic differential scale with endpoints of “Not Believable” and “Believable.” The promotional conditions were perceived as believable (overall mean =5,20). Each of the individual promotional evaluations exceeded the neutral point, and the credibility ratings ranged from 4,8 to 5,6.

1. **Perceived risk:**

An ANOVA indicated that for price discounts the perceived benefit varied across levels (T=19,123, p=0,001), For Pepsi product the perceived risk =3,68 and for Original Product the perceived risk was=2,35, P=0,003.

1. **Hypotheses test:**

To test H1, H2, an ANOVA was conducted for each dependent variable, focusing on the interaction between promotion type and perceived risk level. After that, the simple effects driving the interaction were obtained. The ANOVA including perceived value as dependent variable, and promotion type and perceived risk as independent factors indicated significant main effects of promotion type (F=66,8, p=0,001). And the main effects of perceived risk is significant (F=11807, p=0,001), also the interaction between the two experimental factors was significant (F=15,713, P=0,00).

To assess whether there is empirical evidence for H1a, H1b, comparisons across promotional benefit levels were performed. H1a posits that price discounts generate a higher perceived value than premiums at high level of perceived risk, and Table 6 shows that the differences between them are significant. H1b posits that premiums generate a higher perceived value than price discount at low level of perceived risk, and Table 3 shows that the differences between them are significant. the results suggest that price discounts are more valued when high perceived risk and low perceived risk level are employed, H1a was supported empirically, but H1b was not supported.

**Table 2. The effect of interaction between sales promotion and Brand awareness level**

|  |  |  |  |
| --- | --- | --- | --- |
| **Dependent Variable** | **Sales promotion** | **Brand awareness** | **Sales promotion\* Brand awareness** |
| F | Sig | F | Sig | F | Sig |
| **Perceived value** | 66.8 | 0.00 | 11.807 | 0.001 | 15.713 | 0.00 |
| **Purchase intentions** | 21.12 | 0.00 | 2.385 | 0.125 | 15.323 | 0.00 |

An ANOVA of buying intention on the two treatment factors reveals significant main effects of sales promotion (F=21.12, p=0.00), but the main effect of perceived risk is not significant (F=2.385, p=0.125) while for the interaction between sales promotion and perceived risk level is significant (F=15.323, p=0.00).

To assess whether there is empirical evidence for H2a, H2b, comparisons across perceived risk levels were performed. At high perceived risk levels (H2a), price discounts generate a higher buying intention than premiums do, giving empirical support to H2a as table 6 shows.

At low perceived risk levels (H2b) premiums generate a lower buying intention than price discount do, that lead to reject (H2b) as table3shows.

**Table3. Means, Standard Deviations, and Test of Significance** **for interaction between sales promotion and perceived risk level**

|  |  |  |
| --- | --- | --- |
| **Dependent Variable** | **Sales promotion** | **Perceived risk level** |
| **Low** | **high** |
| M | SD | M | SD |
| **Perceived value** | **Price discount** | 3.36 | 0.591 | 3.39 | 0.604 |
| **premium** | 3.08 | 0.912 | 2.58 | 1.809 |
| **Sig** | 0.03 | 0.00 |
| **Purchase intentions** | **Price discount** | 3.76 | 1.02 | 3.98 | 1.07 |
| **premium** | 3.21 | 1.11 | 3.02 | 1.42 |
| **Sig** | 0.00 | 0.00 |

Figure (1) Hypotheses test

Purchase intentions

Perceived value

1. **Conclusions and implications:**

Marketers spend an enormous amount of time finding out what consumers really want and what promotions will be most effective. Given the very large expenditures allocated to sales promotion tools, understanding what strategy to use for a given promotional cost/value remains important.

The results obtained show when the perceived risk is high (H1), the findings indicate that price discounts are more effective than premiums because they are valued more (H1a) and generate higher buying intentions (H1b). when the perceived risk is low (H2), the findings indicate that price discounts are more effective than premiums because they are valued more (H2a) and generate higher buying intentions (H2b).

The results reported here may have profound implications for managers because they offer guidelines for improving promotional strategies. First, they have to consider that the allocation of the promotional budget to price discounts or premium promotions may have different consequences in terms consumers’evaluation.

1. **Limitation and Future research:**

The current study represents a small step toward understanding consumers’response to sales promotions and therefore the effectiveness of different promotional tools. This research investigates just one type of monetary and nonmonetary promotion, price discount and premium. However, due to the high number of promotional tools (e.g., bonus pack, sweepstakes, and so on), it is possible that these results may not generalize to other tools. Therefore, future research is needed to identify how different promotional tools work.

Also we need to study the nature of the premium offered (e.g., hedonic or utilitarian) is of special relevance because it can influence the evaluation of a promotional offer and determine the arousal of affective and cognitive responses in the evaluation process.

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**APPENDIX I: Pretest (1)**

**Scale Items: Hedonic or utilitarian nature of the product**

**category (**a=**0.82)**

“Think of the situation in which each product is typically used”:

Practical purpose/just for fun

Purely functional/pure enjoyment

For a routine need/for pleasure

T**able (A) the nature of product**

|  |  |
| --- | --- |
| **Product categories** | **Hedonic/Utilitarian Nature** |
| chips | 5,56 |
| Toothpaste | 2,49 |
| soap | 3,10 |
| noodles | 4,81 |
| Shampoo | 2,68 |
| coffee | 5 |
| Soft drink | 3,93 |
| chocolate | 5,63 |

**APPENDIX II: Pretest2**

**Scale Items: Perceived product-premium fit(**a=**0.83)**

This premium is appropriate for the product.

This premium is a logical choice for the product.

There is a good association between the premium and the product.

**Scale Items: Premium attractiveness (**a=**0.96)**

This premium interests me.

This premium pleases me.

**Scale Items: Hedonic or utilitarian nature of the premium**

“Would you characterize the premium as primarily a functional gift or an

entertainment/enjoyable gift?”

Primarily for functional use/Primarily for entertainment use

**Table (B) the Premium Features**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Monetary****Value** | **Hedonic/Utilitarian****Nature** | **attractiveness** | **Product- premium fit** | **The Premium** |
| 4,5$ | 4,5 | 2,87 | 3,33 | **backpack** |
| 3$ | 4,6 | 2,85 | 3,37 | **t-shirt** |
| 2,4$ | 2,1 | 2,47 | 2,59 | **an alarm clock** |
| 2$ | 4,4 | 3,15 | 4,01 | **football** |
| 1,8$ | 3,6 | 2,93 | 3,51 | **Sport cap** |
| 1,5$ | 3,5 | 4,3 | 4,18 | **Mug** |

**APPENDIX III: pretest 3**

**Scale Items:**  **perceived risk (**a=**0.96)**

1-I know what X looks like

2-I can recognize X among other competing brands

3-I am aware of X brand

4-I know X brand

**Table (C) the level of perceived risk**

|  |  |  |
| --- | --- | --- |
| **SD** | **mean** | **Brand** |
| 0,129 | 3,66 | Ugarit |
| 0,068 | 4,61 | Pepsi |
| 0,086 | 3,78 | Canada Dry |
| 0,012 | 2,61 | Original |
| 0,089 | 3,32 | Sport cola |
| 0,062 | 4,48 | Coca cola |