The impact of price promotions on consumers

Business, Marketing

The first key takeaway is that price promotions drive short-term demand and encourage brand switching. Assuming that a particular brand provides price discounts such that the price of a product becomes lower than that of its substitutes of another brand, consumers are likely to switch to buying the lower-priced product, causing demand to increase. According to the Nielsen Global Survey of Loyalty Sentiment, a better price was the top factor that motivates consumers to switch brands. Nonetheless, this surge in demand would only be temporarily and likely return to normal once the promotions are over. Also, if the discounted product does not meet the expectations of consumers, long-lasting consumer loyalty would not be formed. Hence, the discounts and promotions can be used in businesses to help the company bring sales forward to hit sales targets. Additionally, businesses use price promotions to clear out of season inventory of products, or products approaching obsolescence or end of product life. All these attract customers to buy the company’s products for that short period of time in order to increase profits.

The second key takeaway is that price promotions bring joy to people and enhances consumption experience when the products are consumed immediately after purchase, inducing short-term sales. On the other hand, price promotions reduce enjoyment when the products are consumed later due to lower attention during consumption, reducing repeat purchase and brand loyalty in the long run. Discounts dampen the pain of payment during transactions but also reduce sunk-cost considerations, thus lowering attention during consumption and consumption enjoyment. Therefore, when a discounted product is consumed immediately, the happiness gain due to the lower price outweighs the reduced enjoyment during consumption, so the overall consumption experience is positive and vice versa. In businesses, discounts and price promotions would be more applicable for products that have to be consumed immediately and cannot delay the consumption. This includes ready-to-eat food and entrance tickets to attractions that are bought on the spot. This allows customers to have a discounted price coupled with a wonderful experience when using the products, stimulating them to continue purchasing from the company in the future.

The third key takeaway is that when consumers pay the full price for the product but use them after a delay, they would feel bad when paying for them but nonetheless enjoy using them much more. This is due to the larger motivation to psychologically recover the cost of buying the product at full price, and thus more attention is paid to enjoy it. Consumers feel compelled to use the products they have paid for to avoid feeling that they have wasted their money. Pricing tactics that highlight price would increase pressure on buyers to use the products in order to get their money’s worth, taking more pleasure in the products. If businesses are able to highlight the perceived cost of the product, such as through the method of payment (paying a $100 product by cash instead of credit card), consumers would be able to remember it better and therefore, use the product to its fullest to maximise their enjoyment. When consumers actually enjoy their consumption, they would likely repeat the purchase, increasing sales.