

WHAT DO CUSTOMERS PREFER? A PILOT STUDY INVESTIGATING PROMOTIONS IN RESTAURANTS

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ABSTRACT

Previous research has examined two models of price discounts. Relative thinking emerges when an actual menu price matches a customer's reference price resulting in a stronger attraction toward a price discount. On the other hand, when the actual price deviates from a reference price, referent thinking occurs and customers become more attracted by no-price characteristics. This research proposes that with referent thinking customers are more likely to be influenced by the free effect. This study tests how a reference price to actual price variance will influence a customer's choice of discounts and its practical influence on the restaurant industry.

Keywords: Free effect, discount promotion, relative thinking, referent thinking, restaurant pricing

INTRODUCTION AND LITERATURE REVIEW

Restaurants commonly present menu prices either in an all-inclusive format (eg. bundled pricing) or as individually listed items (eg. partitioned pricing) [5]. Previous studies have evaluated two psychological models on price discounts [3]. First, relative thinking emerges when the actual menu price matches a customer's reference price resulting in a stronger attraction toward a price discount. However, when the actual price deviates from a reference price, referent thinking prevails and customers become more attracted by no-price characteristics. Therefore, we propose that with referent thinking customers are more likely to be influenced by the free effect. This research empirically tests how a reference price to actual price variance will influence a customer's choice of discount.

Relative Thinking and Referent Thinking

Relative thinking is founded on Weber's law that, "A person can discriminate between two intensities of a physical stimulus only in proportion to the intensity of the stimulus itself, but not in absolute amounts [1]." Referent thinking is related to the concept of loss aversion and diminishing sensitivity. The major difference between the two concepts is that relative thinking considers diminishing sensitivity without internal reference prices [3].

Zero Price Model

Monetary promotions (eg. price discounts) are normally comprised solely of behavioral goals, whereas nonmonetary promotions (eg. freebies) may also include affective goals. For example, a 100 percent discount (free offer) conveys the notion of no cost while producing an elated positive affect in choosing either a single product [4] or a multicomponent product [2].

METHODOLOGY

The research design involves a 3 (deviation from the reference price: none, higher than reference price, lower than reference price) x 2 (discount type: discount on entrée vs. free drink) between-subject experiment. Independent measures are deviations from the reference price and the discount type. Dependent measures are the attractiveness of the offer and the likelihood to choose the targeted item.

FINDINGS AND DISCUSSION

The respondents in this study indicated that when the actual menu price is higher than the reference price, 72% of respondents chose to use the offer when framed as a price discount, but only 28% of subjects would use the offer when it provided a free drink ($\chi^2 [1] = 9.680$, $N = 50$, $p = .002$). Respondents also regarded price discount as significantly more attractive than the free drink offer ($F (1, 48) = 13.23$, $p < 0.01$). Conversely, when the actual menu price was lower than the reference price, only 44% of subjects chose to use the offer when framed as a price discount, whereas 70.4% of respondents would use the offer when it provided a free drink ($\chi^2 [1] = 3.698$, $N = 52$, $p = .050$). Subjects regarded the price discount as significantly less attractive than the free drink offer ($F (1, 50) = 5.28$, $p = 0.026$). However, when the actual price is the same as the reference price, no significant effect between discount types was observed regarding the percentage of subjects choosing to use the offer. 48% of respondents chose to use the offer when framed as a price discount, whereas 58.3% of subjects would use the offer when it provided a free drink ($\chi^2 [1] = 0.525$, $N = 49$, $p = .331$). Similarly, respondents considered the price discount only marginally more attractive than the free drink offer ($F (1, 47) = 2.94$, $p = 0.09$).

IMPLICATIONS AND CONCLUSIONS

This paper adds to the pricing literature by examining two different psychological models – relative thinking and referent thinking. Furthermore, the research enhances management understanding of promotional practices. As predicted, when the actual menu price is higher than the reference price, customers are more attracted by price discounts as they endeavor to diminish psychological loss experienced when encountered with a higher than expected price. However, when the actual price is lower than the reference price, customers associate a free drink as more attractive than a price discount. The negative correlation between price and quality may deter customers to choose a price discount offer since it may convey a lower perceived quality [6].

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