

Motivating Discounts: Price-Motivated Reasoning

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Abstract

The behavioral implications of relatively low prices and of discounts have been viewed from two opposing perspectives. From an attribution perspective, a large discount signals low quality and decreases the overall appeal of the product, but from a motivational account, a large discount seems attractive and increases the overall appeal of the product. We demonstrate the existence of both accounts, and suggest that the motivated reasoning account triumphs when the intrinsic attraction is high enough. We thus suggest that given the overwhelming amount of uncertainty in product fit and consumption benefits, consumers' beliefs regarding the reason for the discount may depend on their motivational states.

Imagine an array of cellular phones displayed on a sale shelf. All are roughly equal in regular retail price, but one is being offered at a promotional discount of 60 %. Faced with this array, consumers motivated to make a sound purchase may ask themselves any number of questions: Which cell phone is best overall? Which is most useful for my particular needs? Which delivers the highest quality? And which, if any, should I buy?

Price is one piece of information available to consumers as they answer these questions. The relation between price and product perception is well known to marketers (Anderson & Simester 2001; Davis, Inman, & McAlister 1992; Neslin & Shoemaker 1989). One basic economic principle is that a large discount might signal low quality (Bagwell & Riordan 1991; Wolinsky 1983; for general discussion see Milgrom & Roberts 1986; but see Gerstner 1985). Thus, a consumer motivated to make a sound purchase (i.e., proper quality for money spent) is apt to attribute the steep discount to some deficiency in the product. Assessing the product through this lens, she particularly notices its actual and imagined flaws, less so than its virtues. Ultimately, the consumer may reject the cell phone not despite, but because of, its promotion price.

This scenario describes an impartial consumer motivated primarily by the desire to make a sound purchase. With no *a priori* preference for one model over another, she takes an evenhanded approach to evaluating each. It is worth asking whether the same decision process is applied by consumers who bring with them a forgoing attraction to a particular product. For example, imagine a potential consumer with an intrinsic attraction, no matter how mild, to the model that happens to carry a 60 % discount. Would this person also infer poor quality from the steep discount? In this paper, we suggest that he would not. Rather, we describe a psychological process akin to motivated reasoning that may lead this eager consumer to more positive

evaluations of the heavily discounted product than might otherwise be formed. In short, we hypothesize that sometimes, the bigger the discount, the greater appeal of the product—and the greater the likelihood of a purchase. We suggest that the outcome depends on the prior attitude of the consumer toward the product, such that a positive attitude tends to result in increased product appeal but a neutral or negative attitude in decreased appeal.

Our proposition rests on two assumptions. The first is that people generally are motivated to make wise purchases; that is, they are reluctant to foolishly part with their money. To this end, consumers tend implicitly or explicitly to try to justify potential purchases to themselves and perhaps to others. Second, we assume that reasoning about a potential purchase is not significantly different from reasoning in other judgmental domains. As such, it is susceptible to the biasing effects of judgment heuristics (Kahneman & Tversky, 1984), decision rules (Amir & Ariely 2005), and, most important for our purpose, the motivation to confirm desired beliefs.

Motivated Reasoning

One of the most reliable observations in everyday life and in the scientific literature is that people very often are able to believe what they want to believe. For example, they tend to think of themselves as better than average in desirable domains (e.g., Brown 1990; Dunning & Hayes 1997; Kruger & Dunning 1999) and more likely than others to experience desirable life events like landing a high-paying job and realizing marital happiness (Brown 1986; Weinstein 1980). They also tend to believe that their preferred world view is more correct than others'. And, they may unconsciously adjust their attitudes to justify their actions (Festinger 1957; Festinger & Aronson 1960). They are able to do so, moreover, while thinking themselves essentially unbiased processors of information (Kunda 1987, 1990; Pronin, Gilovich, & Ross 2004; Pyszczynski & Greenberg 1987).

People are able to maintain this “illusion of objectivity” (Pyszczynski & Greenberg 1987) in part through a subtle bias in the standards they use to evaluate motivationally relevant data. When motivated to reject a disagreeable proposition, people tend to hold evidence to a relatively high standard, asking, in essence, “Must I believe this?”. Those same people, when motivated to accept an agreeable proposition, tend to apply a relatively low standard to the evidence (Gilovich, Dawson, & Regan 2004; Ditto, et al. 1998). They ask implicitly “*Can I believe this?*”, a question that elicits a strategy of trying to confirm the proposition. By employing a partial or truncated search for evidence (Dawson, et al. 2002; Ditto & Lopez 1992; Ditto, et al. 1998), a biased assemblage of evidence (Dunning, Meyerowitz, & Holzberg 1989; Kunda 1987; Lord, Ross, & Lepper 1979), and relatively superficial processing of available information (Dawson, Gilovich, & Regan 2002; Ditto et al. 1998), motivated reasoners can very often find grounds for accepting a desired conclusion.

We hypothesize that a large discount may intensify a consumer’s inherent desire for the product and prompt the implicit question, “Can I believe that this would be a good purchase?” Motivated to answer “yes,” consumers in this position may tend to focus on and possibly exaggerate the product’s positive attributes, for example by taking a rosy view of the product’s usefulness, aesthetics, quality, and so on. They may also tend to make favorable attributions for the discount (e.g., I am a valued customer; this is an introductory offer) rather than the unfavorable attributions predicted by signaling theory (e.g., the product hasn’t been selling well; something is wrong with the product). Finally, we believe that these price-motivated positive estimates of the product will lead to more purchases. In the absence either of a large discount or an *a priori* attraction to the product, consumers should be less tempted to purchase the product and therefore less likely to derive positive inferences from price.

We explore these propositions in three studies. Experiment 1 demonstrates the phenomenon. Experiment 2 provides evidence of motivated reasoning in this domain, and Experiment 3 links the proposed mechanism to actual purchases. We conclude by discussing implications for purchasing, pricing, and for designing marketing communications.

Experiment 1: Purchasing a Lamp

Our goal in this experiment was to demonstrate that product evaluations can be enhanced by large discounts. Participants in this on-line study viewed a photograph of a desk lamp, an item we believed would appeal to most respondents in our subject pool. They imagined the lamp was being offered at one of six discount levels, and rated it on various attributes. We predicted a positive relationship between discount size and product appeal ratings, so that participants faced with a large as opposed to a small discount would judge the product itself more favorably.

Method

Participants. Participants were 227 members of a worldwide volunteer subject pool maintained through a major North-eastern university for the purpose of conducting on-line experiments. They were entered into a drawing for a modest prize in exchange for their participation.

Procedure. Participants logged on to a web page featuring a photograph of a stylish silver study lamp. They were asked to imagine that a well-established website was offering the lamp for sale at a discounted price instead of its usual price of \$99.95, plus a \$3.95 charge for shipping and handling.

Participants were randomly assigned to one of six discount conditions: 8 %, 25 %, 45 %, 65 %, 85 %, and 100 % (that is, *free*). In the 8 % condition, for example, participants learned the lamp was being offered “at an 8 % discount, \$91.95 instead of \$99.95, plus \$3.95 shipping and handling”. In the *free* condition, participants were told the website was offering the lamp at no cost other than the shipping and handling charge.

Participants then used three 100-point scales to rate the lamp’s aesthetic value, quality, and usefulness (0 = extremely low; 100 = extremely high), and the likelihood they would purchase the lamp (0 = definitely would not purchase; 100 = definitely would purchase). The order of questions was counterbalanced within condition.

Results and Discussion

Mean scale results are reported in Table 1. Regression analysis revealed a highly significant relationship between discount condition and self-reported likelihood of purchase, ($\beta = 10.57$, $t [226] = 9.25$, $p < 0.001$). As predicted, greater discounts produced greater desire to purchase the lamp¹. In this and in all future analyses, we found no significant gender differences.

●●● Insert Table 1 here ●●●

According to our hypothesis, participants offered a large discount should perceive it in a way that justifies purchasing it. Thus, we anticipated that greater discounts (and, in turn, greater desire for the product) would lead to more positive assessments of the product. This prediction was largely supported. Regression analyses revealed a highly significant relationship between discount condition and usefulness ratings, ($\beta = 4.42$, $t [226] = 3.77$, $p < 0.001$), and a marginally

¹ Note that the relationship was not monotonic. The extremely large discounts did not increase purchase rates at the same rate as the more moderate ones, creating a somewhat inverse U shape.

significant relationship between discount condition and aesthetic value ratings, ($\beta = 1.79$, $t [225] = 1.76$, $p < 0.09$). The size of the discount had no effect on judgments of product quality, ($\beta = .74$, $t [225] < 1$, *ns.*)

Ratings of usefulness, aesthetics, and quality were all intended to tap into the overall attitude towards the lamp. We therefore averaged these ratings to reflect the overall appeal of the product to each participant ($\text{Alpha} = 0.82$). Regressing this appeal variable on discount condition yielded a significant linear relationship, so that participants judging a more heavily discounted lamp tended to find the product more appealing, ($\beta = 2.32$, $t [226] = 3.19$, $p < 0.002$). Further, the level of appeal was a good predictor of the stated likelihood of purchase ($\beta = 0.8$, $t [226] = 7.58$, $p < 0.001$), partially mediating the effect of the discount size ($p = 0.0003$, Sobel test). In sum, participants presented with larger discounts evaluated the lamp more favorably and believed themselves more likely to buy it than participants presented with smaller discounts. These results are consistent with the proposed motivated reasoning account. By convincing themselves that the desired product is useful and aesthetically pleasing, consumers obtain rational support for the discount-induced motivation to buy. The lamp results replicated when we repeated the experiment with a decorative tea-pot. We spare the reader the repetition.

We have suggested that prior attitudes toward the product are key to predicting consumers' reactions to large discounts. Specifically, we hypothesize that positive prior attitudes combined with a large discount will fuel a process of motivated perception resulting in more favorable product assessments. In contrast, negative or neutral prior attitudes or a small discount will fail to evoke this process. Consumers in this situation may rely on more inference-based

reasoning processes to conclude that the large discount signals poor product quality. We tested our hypothesis in a second experiment.

Experiment 2: Reasoning about gender-targeted products

Participants in this on-line study imagined that a cosmetic eye-cream was being offered for sale at one of 6 discount levels, and rated it on various attributes. A pretest indicated that in the absence of price information, the eye cream appealed more to women than to men. We predicted that women, who bore an intrinsic attraction to the product, would judge the eye cream more favorably when it was heavily discounted, whereas men would show the opposite tendency. Demonstrating a decrease among men in purchase likelihood with a larger discount would counter a downward sloping demand curve explanation of the results of Experiment 1. It could also be argued that the pattern of appeal ratings observed in Experiment 1 reflects not motivated reasoning, but rather a broader implicit positivity bias (Slovic, 2002). That is, participants may have been responding in a non-conscious manner to the good feeling evoked by an attractive product at a good price, and not, as we have proposed, engaging in a more deliberative process of asking an implicit question and searching for evidence to support it. Therefore, in Experiment 2, we also examined the effect of the gender (a proxy for prior product appeal) and discount size on participants' attributions about the reason for the discount. Attributing an outcome to a cause goes beyond a simple report of affect-driven perceptions and requires some degree of deliberative reasoning. Demonstrating systematic biases toward positive attributions in some conditions but negative attributions in others would offer stronger support for our hypothesis that true reasoning is taking place.

Method

Participants. Participants were 537 members of a worldwide volunteer subject pool maintained through a major North-Eastern university for the purpose of conducting on-line experiments. They were entered into a drawing for a modest prize in exchange for their participation.

Procedure. Participants logged on to a web page featuring a photograph of a cosmetic eye-cream. They were asked to imagine that a well-established website was offering the product for sale at a discounted price instead of its usual price of \$42.50, with a \$3.95 fee for shipping and handling. Participants were randomly assigned to one of six discount conditions: 7%, 20%, 40%, 60%, 80%, and *free*. As in Experiment 1, participants used a 100-point scale to rate the product's aesthetic value, quality, and usefulness (0 = extremely low; 100 = extremely high), and the likelihood they would purchase the product (0 = definitely would not purchase; 100 = definitely would purchase). The order of questions was counterbalanced within condition. Participants then chose the most likely reason for the discount from a list of 5 different possible reasons. These reasons ranged from positive reflections on the product offer (e.g., "The retailer is very efficient and can thus offer much better prices,") to negative (e.g., "there is something wrong with the product line.") Finally, we asked participants to indicate their gender and whether they considered the product as a gift².

Results and Discussion

Regression analysis revealed a highly significant overall relationship between discount condition and likelihood to purchase, ($\beta = 18.55$, $t [535] = 4.08$, $p < 0.001$). Overall, greater discounts produced greater desire to purchase the product. However, when we regressed likelihood of purchase on gender, discount size, and their interaction, we found a significant

² Male participants were slightly more likely to indicate they would consider the product as a gift. Since the gift intentions did not influence any other measure we do not report them.

interaction only between gender and product: women reported greater likelihood to purchase the eye cream as the discount increased, whereas men did not ($\beta = 25.15, t [533] = 2.70, p = 0.007$). There were no significant main effects for gender ($\beta = 6.99, t [533] = 1.23, p = 0.19$), or for discount size ($\beta = 2.42, t [533] = 0.31, ns.$) As predicted, participants were motivated by the higher discounts to purchase the eye-cream only when it held intrinsic appeal.

●●● Insert Figure 1 here ●●●

According to our hypothesis, consumers motivated by larger discounts on an a-priori appealing product should subsequently evaluate the product more favorably on dimensions unrelated to price. Thus, we predicted a 2-way interaction of gender and discount size on our measures of appeal. As before, we averaged the ratings of product usefulness, aesthetics, and quality for each product ($\alpha = 0.84$) to form an overall appeal measure³ (see Figure 2). Regressing appeal on gender, discount size, and their interaction yielded the expected 2-way interaction ($\beta = 0.94, t[531] = 3.63, p < 0.001$). The simple effects of the discount size on product appeal for women are positive and significant ($\beta = 0.55, t [350] = 3.71, p < 0.001$), and are negative and marginally significant for men ($\beta = -0.39, t [181] = 1.88, p = 0.062$). Greater discounts led to more positive appeal ratings if and only if the product was gender-congruent. There was a marginal negative main effect for discount size ($\beta = -0.39, t [533] = 1.84, p = 0.07$), and no significant main effect for gender ($\beta = -0.07, t [533] = 0.45, ns.$) In line with our hypothesis, product appeal fully mediates the effect of the interaction between gender and discount size on the purchase likelihood ($p < 0.0001$, Sobel test): Including appeal in the

³ The predicted interaction between gender and discount size was also significant for each measure by itself.

regression analysis reveals a reliable effect ($\beta = 25.05$, $t [530] = 22.01$, $p < 0.001$) and deems the abovementioned interaction not significant ($\beta = 1.39$, $t [530] = 0.2$, *ns.*).

●●● Insert Figure 2 here ●●●

We predicted that the match between the eye cream and being a woman (i.e., gender congruence) and discount size would similarly impact the positivity of participants' attributions for the discount. In the absence of a motivation to purchase a product, a large discount might signal that other consumers have been unwilling to purchase it at full price. The implication is that other consumers have judged the product to be relatively useless, unattractive, poor quality, and so on. Inferring such negative qualities, though, is inconsistent with a consumer's presumed motivation to justify a purchase he or she really wants to make. Therefore, we anticipated that participants in our study who were most tempted by the offer—that is, women considering a heavily discounted product—would be least willing to make price attributions that reflected negatively on the product. A regression analysis of the discount reasons ratings on gender revealed a reliable relation⁴. As predicted, greater discounts were associated with more positive attributions only when the product was gender-congruent ($\beta = -0.39$, $t [170] = 2.49$, $p = 0.014$). For gender incongruent products, a more sizable discount led participants to more negative inferences about the reason for the discount.

Experiments 1 and 2 demonstrate that steep discounts can lead to more favorable product perceptions and greater likelihood to purchase—if the a-priori attitude about the product is positive independent of price. The desire to purchase appears to color not only subjective judgments of product appeal but also the more systematically reasoned attributions for the

⁴ A similar result obtains when we regress reasons on the measured appeal ($\beta = -0.22$, $t [170] = 2.80$, $p = 0.006$).

discount. Experiment 3 was designed to replicate the findings of Experiment 2 using a different product category, and also to further extend the findings for a symmetrical gender design. Throughout, we have used self-reported likelihood of purchase as a proxy for actual behavior. Experiment 3 also tests whether discount-induced motivated reasoning impacts real purchasing decisions.

Experiment 3: Purchasing a Movie

Method

Participants. Participants were 213 MBA students (128 male and 85 female) enrolled in a required first-year course at a large east-coast university. Participation was part of a course requirement.

Procedure. Participants completed a packet of questionnaires for unrelated studies in class. The instructor announced that whereas many of the questionnaires asked hypothetical questions, ours offered a genuine opportunity to purchase one or more DVDs using participants' own money, with appropriate payment to be collected upon delivery.

The questionnaire featured three photos of DVD covers next to synopses of the plots. Students were presented with one of two DVD sets. The "female target" set featured three DVDs that a pretest revealed to be relatively liked by women but not by men (i.e., *Lovely and Amazing*, *Thelma and Louise*, and *Sense and Sensibility*). The "male target" set featured DVDs that were relatively liked by men but not by women (i.e., *The Alamo*, *Blade Runner*, and *Species*).

The questionnaire contained an offer to purchase one or more of the DVDs at a discount. In the "small discount" condition, the movies were offered for "\$10.80 each—a 10% savings off

the regular price of \$11.99.” In the “large discount” condition, they were offered for “\$4.80 each—a 60% savings off the regular price of \$11.99.” Thus, the design was 2 (DVD set: female target vs. male target) x 2 (discount: small vs. large) between participants. Note that all participants received the same information about the market value of the products—all read that the DVDs regularly sold for \$11.99 each.⁵

Participants could purchase up to one copy each of 1, 2, or all 3 titles. Those who wished to purchase completed an order form. All participants then rated the degree to which they would enjoy owning each of the 3 movies (even if they had not made a purchase) using a 9 point Likert-type scale (1 = not at all, 9 = very much). Finally, participants indicated their gender. Those who ordered DVDs later paid for the movies and received them.

The gender congruence of a set of movies was constructed to manipulate participants’ a-priori attitude towards the movies, based on our pre-test, such that the gender congruent sets represented positive attitude but the gender incongruent sets represented a negative attitude towards them. As before, we predicted that a steep discount would be most alluring to those offered the gender-congruent set, who would therefore imagine enjoying the movies a great deal and be more likely to purchase. In contrast, we believed that participants offered a gender-incongruent choice set would find the movies less alluring and would make more negative attributions for the discount, and that these judgments would manifest in lower likelihood to buy.

Results and Discussion

The main dependent measure was anticipated enjoyment ratings in the different conditions, taken as the maximum rating within individual across DVDs. In line with the pretest, participants anticipated enjoying the gender-congruent movies more so than the gender-incongruent movies (Table 2). Indeed, we observed a crossover interaction of gender congruency

⁵ This was the actual purchase price in the discounted DVDs section at Amazon.com, not including S&H.

and discount size ($\beta = 0.018$, $z(205) = 2.69$, $p < 0.01$). While the simple effect of the discount size on product appeal was positive but not significant in the gender congruent condition ($\beta = 0.011$, $z(102) = 1.16$, $p = 0.25$), its effect was negative and significant in the gender-incongruent condition ($\beta = -0.02$, $z(107) = 2.28$, $p = 0.025$). In the gender congruent conditions, participants believed the movies were *more* enjoyable when offered for a large discount than when offered for a small one! The opposite is true in the gender incongruent conditions: the movies were judged *less* enjoyable when offered for a larger discount, suggesting that steep discounts signaled low product quality only to those who found the products unappealing to begin with.

Our hypothesis makes the prediction that intrinsic product attractiveness combined with large discounts causes consumers to evaluate the product favorably via a process of motivated reasoning. Thus, in our study, imagined enjoyment (i.e., product assessments) should mediate the effect of the interaction of gender congruency (i.e., intrinsic product attractiveness) and discount size. We have already established that gender, set, and discount size interact to affect enjoyment ratings. Mediation analysis requires enjoyment ratings to be a significant predictor of purchasing. A probit analysis of the binary choice on appeal confirms that it is ($\beta = 0.49$, $z(211) = 5.07$, $p < 0.001$). Finally, including enjoyment ratings in the overall analysis of purchasing still reveals a significant effect for imagined enjoyment ($\beta = 0.643$, $z(204) = 4.66$, $p < 0.001$) and reduces the previous three-way interaction to non-significance ($\beta = 0.005$, $z(204) = 0.77$, ns.) In this study, then, product assessments fully mediated the relationship between intrinsic product attractiveness and discount size to predict purchases.

●●● Insert Table 2 here ●●●

Next, we analyzed the number of actual purchases, represented in Table 3. We predicted that the large discount would generate more purchases than a smaller one only in the gender-congruent conditions because participants would be motivated to endorse positive beliefs about the source. A probit analysis of the choice data confirms this prediction⁶. There was a marginally significant main effect of discount size ($\beta = 0.009$, $z(205) = 1.86$, $p = 0.064$), qualified by the predicted three-way interaction of gender, set, and discount size ($\beta = 0.01$, $z(205) = 1.96$, $p = 0.05$). There were no other significant effects in this analysis, including no effect for gender in itself.

Finally, we also requested that participants choose the most plausible reason for the discount out of a list of reasons which differed along their product inference valence, similar to Experiment 2. A probit analysis reveals that the valence of the perceived reasons for the discount serves as a reliable predictor for purchasing ($\beta = 0.47$, $z(99) = 2.03$, $p = 0.042$). Moreover, as the theory of motivated reasoning would predict, this effect is again fully mediated by the measure of maximum appeal. Adding this measure to the abovementioned analysis reveals a significant effect of appeal ($\beta = 0.342$, $z(98) = 2.57$, $p = 0.01$), but deems the effect of the reasons negligible ($\beta = 0.223$, $z(98) = 0.82$, *ns.*)⁷.

●●● Insert Table 3 here ●●●

It appears that viewing an intrinsically appealing product offered at a steep discount motivated participants to judge the product's price-independent attributes even more favorably,

⁶ Three participants—all in the gender-congruent, high discount condition—purchased more than one DVD. We treated these conservatively as a single purchase in the probit analysis. Including the actual number of DVDs purchased strengthens our results.

⁷ Similarly, the valence of the reasons also fully mediates the effect of the 3-way interaction of gender, discount size, and DVD-set on the purchasing behavior. The reason valence effect is as predicted ($\beta = 0.547$, $z(92) = 2.07$, $p = 0.038$), while no other effect is significant, and the 3-way interaction is ($\beta = 0.029$, $z(92) = 0.74$, *ns.*).

as well as to convince themselves that the source of the discount had no negative bearing on the product. The positive product assessments then increased actual purchasing, lending external validity to our hypothesis. Conversely, absent such positive attitude, both the reason for the discount and the hedonic value of the product were seen through a negative lens when offered at a steep discount. These negative judgments then decreased purchase rates.

General Discussion

We have suggested that the relationship between product evaluations and purchasing decisions is bidirectional. Perceived product attractiveness, quality, and anticipated enjoyment all may influence a consumer's desire to purchase a product. We have shown that it is also possible for a consumer's underlying desire to influence product perceptions. In this paper, large discounts on intrinsically appealing products appeared to trigger the goal of making a purchase. We assume this goal coexists with consumers' goal to justify purchases. In service of both, participants in our studies appeared to distort their perceptions of the appealing (and appealingly priced) product so that it appeared to them to be even better than they thought. Moreover, they did so to the extent that we witnessed a reversal of the well-documented tendency for steep discounts to signal an inferior product.

In Experiment 1, larger discounts produced more positive perceptions of a desk lamp, which in turn partially mediated the reported likelihood of purchase. These results replicated in Experiment 2, but only for participants thought to have some inherent attraction to the product independent of price. Specifically, these participants more so than others judged the product to be useful, high-quality, and aesthetically pleasing. They also reasoned that the purpose of the discount was to promote a brand or vendor (neither of which calls into question product quality)

rather than to move an inferior product off the shelf. For those to whom the product was irrelevant, in contrast, steep discounts appeared to reflect poorly on the product. These results supported our contention that larger discounts triggered controlled, motivated reasoning in some participants. Those who were tempted to buy seemed to ask, in essence, “*Can I justify this purchase?*” and to look for reasons to answer “yes.” Experiment 3 confirmed that the rosy product evaluations that emerged from this motivated reasoning process led to more actual purchases.

These results further our understanding of consumer response to prices on several fronts. First, when a discounted product is relevant, consumers may favorably construe the product attributes and the discount to justify a purchase. In contrast to lay theories, we observed that steeper discounts only intensified the effect. This was not true when the product was irrelevant. Here, larger discounts failed to produce positive evaluations and greater purchases.

Second, our results shed light on the beliefs consumers may hold when considering price promotions. To the extent that the product is tempting and the discount appealing, consumers may adopt positive beliefs regarding the purpose of the promotion. Conversely, if the product itself is not appealing, consumers’ inferences about the reasons driving the promotion may be more skeptical (Anderson & Simester 2001; Wolinsky 1983; Bagwell & Riordan 1991; Milgrom & Roberts 1986). For example, participants in Experiment 3 who saw a gender incongruent set of DVDs at a 60% discount purchased even fewer than those who saw the same set at a 10% discount), suggesting the retailer in the latter condition was throwing away revenues and credibility. Our theoretical account may contribute to explaining the mechanism underlying observed differential effects of promotions on national vs. private label brands (Gerstner 1985; Blattberg & Wisniewski 1989; Davis, Inman, & McAlister 1992; Bronnenberg & Wathieu 1996),

as the prior attitude towards well known brands may influence the interpretation of a discount in the same motivated way participants in our experiments reasoned about large discounts.

It is important to note that any inference, attribution, or signaling process relies on the existence of uncertainty. In order to meaningfully discuss beliefs and attribution processes there has to exist some level of uncertainty about the product, otherwise the consumer knows for sure what is the value of the product, and we expect none of the abovementioned processes to take place. We do not expect experts, for example, to be influenced by the size of the discount above and beyond the simple price effect.

To summarize, the motivated ways in which consumers analyze product offerings should be taken into consideration when making pricing decisions. A corollary of our research, for example, is that larger discounts may be more conducive of profits than smaller discounts, if and only if there is an existing inherent appeal. This conclusion may be contrary to a common method of clearing one's shelves – offering very large discounts—for such a strategy is likely to discourage purchases by all except those who liked the product in the first place. Finally, to the extent that consumers' impressions of the products endure, consumers making purchases in large discount conditions may be more satisfied overall.

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Tables:

Table 1: Mean scale results for appeal and Purchase likelihood

Discount Size	Average Appeal	Purchase Likelihood
8%	54	21
25%	62	27
45%	59	25
65%	57	38
85%	69	58
Free	63	63

Table 2: Rated maximum appeal

		Gender	
		Incongruent	Congruent
Discount Size	10%	4.3	4.7
	60%	3.2	5.2

Table 3: Purchase Rates of DVDs

		Gender	
		Incongruent	Congruent
Discount Size	10%	7%	5%
	60%	8%	33%

Figure 1: Eye-cream purchase likelihood, by gender, across discount sizes

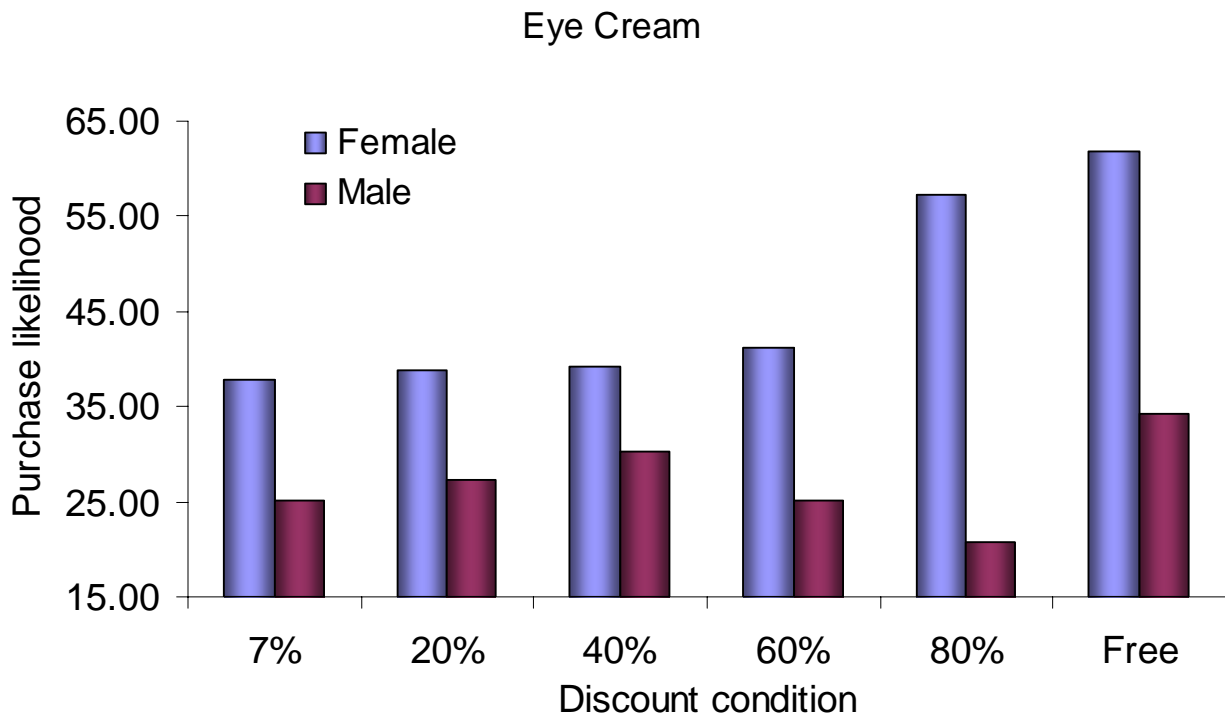


Figure 2: Overall eye-cream appeal ratings, by gender, across discount sizes

