

# A Preliminary Examination of Online Sales Promotion in Hedonic versus Utilitarian Product Categories

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## Introduction

In the words of the famous 19<sup>th</sup> century American showman, P.T. Barnum, “without promotion something terrible happens...nothing!” The central role played by sales promotion was certainly not lost on one of history’s most successful entrepreneurs and, even in the age of e-commerce, modern marketing has continued to embrace sales promotion. Sales promotion comprises the range of techniques used to attain sales and marketing objectives by adding value to a product or service within a defined time period (Dubey 2014). Roughly two-thirds of all firms incorporate sales promotion as part of their overall marketing strategy, and marketing budgets are usually evenly split among consumer sales promotion, general advertising, and trade oriented sales promotion (Jaffee 2007). Moreover, overall promotional spending in the U.S. is growing, reaching \$584 billion in 2013 alone (Marketing Charts 2013). As marketers have begun to gravitate toward the realm of e-commerce, marketing programs involving sales promotion have been designed for the virtual retail environment as well. Not surprisingly, research has demonstrated that online consumer sales promotion can help to drive sales, market share and profits (Jiang and Liu 2012).

Nevertheless, the optimal design, format, and timing for e-commerce promotion is influenced by a wide variety of factors. These include internal consumer factors such as brand preferences and variety seeking behavior (Zhang & Krishnamurthi 2004). Therefore, it is important to adjust sales promotion by tracking each customer’s unique promotion sensitivity and response tendencies over time. According to Zhang & Wedel (2009), all customers exhibit at least some degree of sensitivity to online sales promotion. However, Zhang & Wedel (2009) show that expected profit is even higher when using sales promotions that are offered to consumers who purchased the targeted brand on the previous purchase occasion as compared to competitive sales promotion designed to encourage brand switching. Therefore, unlike traditional sales promotion that appears to primarily impact brand switchers (Nagar, 2009), it is the loyal customers that appear to be most responsive to online sales promotion. This is significant, as Danaher, Wilson, & Davis (2003) report that brand loyalty is substantially higher in online stores than in traditional

brick-and-mortar retail stores. Hence, a substantial and responsive audience exists for online sales promotion. Considering the impact on loyal customers, online consumer sales promotion may be the most essential element of the e-commerce marketing mix.

In addition to consumer factors, previous research has demonstrated that the optimal promotional activity is also dependent on the product category (Fader & Lodish 1990). According to Hui & Chau (2002), a classification framework that matches product characteristics with corresponding product categories can be a useful tool for devising appropriate marketing strategies in the online environment. One popular approach is to organize products into categories on the basis of hedonic versus utilitarian dimensions, or form versus function (Chitturi, Raghunathan, & Mahajan 2007). Hedonic products tend to possess aesthetically pleasing and emotional qualities. On the other hand, utilitarian products tend to be primarily associated with utilitarian aspects and practical applications. Considering the desirability of matching the promotional mechanism to the product category, it is of both theoretical and practical importance to determine if there is a relationship between hedonic versus utilitarian product categories and the use of online sales promotion. In this study, we provide insights to help answer this question.

## **Hypothesis**

Hirschman and Holbrook (1982) were among the first to make the distinction between hedonic products and utilitarian products. Hedonic products include those which address the multisensory, fantasy, and emotional aspects of product use (Hirschman & Holbrook 1982). In recent years, researchers have studied and classified a wide range of products based on the hedonic versus utilitarian dichotomy. Products with primarily hedonic benefits include apparel (Lahiri & Siddika 2014), books, music, and movies (Cheema & Papatla 2010), flowers (Guéguen 2012) and jewelry (Lee, Caudill, & Mixon 2014). While hedonic products bring pleasure, utilitarian products are related to purpose and functionality. Rather than being desired for their sensory characteristics, utilitarian products simply allow the customer to fulfill a basic need (Roggeveen, Grewal, Townsend, & Krishnan 2015). While hedonic products elicit affective responses, decisions regarding utilitarian products tend to be more cognitively based. These cognitively based utilitarian product categories include automotive parts and accessories, electronics, hardware and home improvement products, and frequently purchased convenience products (Ratchford 1987).

Historically, there has been a difference in the use of the promotion mix between hedonic and utilitarian products. For example, Choi et al. (2012) reported that television commercials with sales promotion cues were far more common for utilitarian type “think” products than for hedonic or “feel” products. However, the internet is far more interactive and psychologically stimulating than traditional electronic media. In fact, according to Roggeveen et al. (2015), the dynamic visual

format of the online environment leads to a virtual product experience that is surprisingly similar to that of the actual product experience. As such, the online environment may be particularly well suited to the marketing and promotion of hedonic products. In essence, by bringing products to life, the internet has leveled the promotional playing field for hedonic products. Consequently, the traditional focus of sales promotion on utilitarian products may no longer be true in the online environment. If so, we would not expect to see any significant difference in the use of online sales promotion between hedonic and utilitarian product categories. This is expressed in terms of the null hypothesis as follows:

H<sub>0</sub>: There are no significant differences in the use of online sales promotion between hedonic and utilitarian product categories.

## **Forms of Sales Promotion**

### ***Price Promotion***

Price promotions have long been used by traditional and e-commerce retailers alike. This is because price promotion has the potential to both attract new customers as well as to retain existing customers. For example, Peinkofer, Esper, Smith, & Williams (2015) find that price promotions tend to reduce the propensity for consumers to switch to a competitor's website, even in the face of stockouts of the price promoted item. John Lewis, a U.K. based chain of department stores, has been using the slogan, "Never Knowingly Undersold" for the past 100 years. In 2010, they decided to extend this promise to their online sales. Consequently, John Lewis began to accept price-match claims via their website. With very little online presence, expectations for the program were limited. The results, however, far exceeded expectations. Within the first year of extending their price-match promise to the online environment, they saw a 27% increase in multi-channel customers (Marketingsociety.com 2012).

The psychological explanation for the effectiveness of price promotion is that this form of sales promotion reduces a consumer's motivation to allocate cognitive capacity to the purchase decision. "The prospect of paying a lower price for a product necessarily lowers the stakes, inviting the consumer to economize on mental effort" (Aydinli, Bertini, & Lambrecht 2014, p. 82). Price promotion reduces the motivation to process information and discourages deliberation. In other words, it can "dumb down" a potential purchase by making it less consequential. Instead of operating through the central route to persuasion (i.e. Cacioppo & Petty 1984), price promotion appears to operate by placing greater emphasis on the affective responses that products spontaneously trigger (Aydinli, Bertini, & Lambrecht 2014).

### ***Free Gifts***

Another popular form of sales promotion is the offer of a free gift with a purchase. Although not every company utilizes free gift promotions, some companies, such as Estée Lauder, have more than 50% of their sales tied to free gifts (Laran & Tsiros 2013). Many high end department stores, including Saks Fifth Avenue, Neiman Marcus, and Bloomingdale's extensively use gift-with-purchase online promotions. For example, Bloomingdales offered a free full-size Marc Jacobs beach towel with any online purchase of over \$250 on the brand's swimwear. Meanwhile, Neiman Marcus offered a Brera sports watch as a gift with every regular-priced men's purchase of \$500 or more. The offer was explained on their main website and promoted via Twitter. For these retailers, the free gift promotion is a way to incentivize brand loyalty without offering direct discounts (Carr 2012).

Research suggests that online free gift offers increase perceived value and trust (Lee & Monroe 2008) and stimulate spontaneous decision processes (Suh & Yi 2012). Consequently, as with online price promotions, less involved consumers may be particularly influenced by free gift offers (Suh & Yi 2012, Yi & Jeon 2003). Furthermore, for consumers focused on hedonic consumption goals such as fantasy, fun, and pleasure, Suh & Yi (2012) suggest that online promotions involving free gifts may be especially effective, as they activate hedonic desires.

### *Limited Hour Specials*

One sales promotion technique that greatly benefits from the immediacy and accessibility of social media platforms such as Twitter is the limited hour special. In 2013, Thanksgiving and Hanukkah overlapped for the first time since 1918. American Apparel Company took advantage of this unique marketing opportunity by promoting a one hour online "flash sale". They offered their Twitter followers a limited-time offer of 15% off if they used the code "Thanksgivukkah" at the checkout. In just one hour, the promotion led to an incredible \$50,000 in revenue (Evigo.com 2014). The results demonstrate that limited hour specials can be a quick and effective way to connect with customers in real-time.

The effectiveness of limited hour specials can be explained by scarcity theory. According to scarcity theory, as the perceived unavailability of a given offer increases, so does its perceived value and desirability (Lee & Seidle 2012, Lynn 1992). In fact, any commodity will be valued to the extent to which it is believed to be unavailable (Roy & Sharma 2015). As such, limited hour specials, which create a sense of scarcity and urgency, are likely to contribute to the emotional impact of the product.

### *Sweepstakes and Contests*

Perhaps the most extravagant and potentially most expensive sales promotion ever devised was the billion-dollar giveaway created by Pepsi in the summer of 2003. Pepsi printed one billion unique entry codes for their "Play for One Billion Dollars"

sweepstakes. In order to enroll, Pepsi required consumers to enter the codes either on their website or via postal mail. Pepsi then invited 100 finalists to participate in a network special entitled *Play for a Billion*. Players were gradually eliminated through various games, until only one remained. In a unique and humorous twist, Pepsi had a chimpanzee roll dice to determine the grand prize number and if the number assigned to the finalist exactly matched the grand prize number, that contestant would receive a US \$1 billion prize paid in 40 annual installments. Luckily for Pepsi, and their insurance company, although the ultimate winner claimed a \$1 million guaranteed prize, the sweepstakes winner did not actually take home the billion-dollar prize. Nevertheless, the promotion saw more than four million consumers enter more than 20 million game entries, and Pepsi succeeded in creating a sales promotion campaign with incredibly high exposure (Scapromotions.com 2016).

In recent years, companies have increasingly continued to use sweepstakes (based on the principle of coincidence) and contests (based on some degree of effort) to pass on their promotional information to consumers (Schulten & Rauch 2015). Although a legal distinction can be made between sweepstakes and contests, because they are so similar in their implementation from the consumer's point of view, they are functionally very similar approaches. To the extent that they are fresh and exciting, sweepstakes and contests can often be used to build a high level of engagement with a marketer, and can serve as an excellent platform for integrated marketing communications programs that are mutually reinforcing and psychologically stimulating.

## **Methodology**

The main objective of this study was to determine if there are differences in the use of online sales promotions between hedonic and utilitarian product retailers in the e-commerce environment. To test the hypothesis, this study acquired a 2015 database of the top 1000 e-commerce retailers in North America. This in-depth database was originally created by market research firm, Internet Retailer & Vertical Web Media LLC. The database analyzes the e-commerce industry using several metrics such as sales revenue, monthly visits, conversion rate and others to generate an annual report of the top 1000 e-commerce retailers based in North America. The database utilizes several pieces of information from different sources, such as Experian Marketing Services, Dynatrace, and others. Retailer rankings are primarily based on sales revenue. The top 1000 retailers included in the database collectively account for about 90 percent of online retail purchases in the United States and Canada.

The data points considered for the analysis are counts of e-retailers participating in different types of online sales promotions. Accordingly, the current study uses the chi-square test for homogeneity in order to test the hypothesis. Although the primary topic of interest is the hedonic versus utilitarian product

category dichotomy and their respective online sales promotion activities, the different product categories within each group are also provided in the corresponding tables in order to facilitate more nuanced implications. Table 1 presents the frequency counts for hedonic products in terms of the four common forms of sales promotion previously described, while Table 2 provides the same data for utilitarian products.

**Table 1: Hedonic Products use of Online Sales Promotion**

Hedonic Products	Price Promote	Gift	Limited Hour Specials	Sweeps	Total	N	Percent
Apparel/ Accessories	120	34	23	37	214	245	87%
Books/Music/ Video	8	1	5	3	17	44	39%
Flowers/ Gifts	10	3	2	3	18	30	60%
Jewelry	6	5	7	10	28	34	82%
<b>Total</b>	144	43	37	53	277	353	78%

**Table 2: Utilitarian Products use of Online Sales Promotions**

Utilitarian Products	Price Promote	Gift	Limited Hour Specials	Sweeps	Total	N	Percent
Automotive Parts/ Accessories	4	4	3	3	14	34	41%
Computers/ Electronics	27	7	4	8	46	80	58%
Hardware/ Home	16	3	3	4	26	59	44%
Office Supplies	6	4	2	3	15	47	32%
<b>Total</b>	53	18	12	18	101	220	46%

## Analysis and Results

The chi-square test for homogeneity tests whether the distributions are the same for all groups. It examines the differences between the observed counts and what is expected under the assumption of homogeneity. In particular, the chi-square test looks for differences large enough to go beyond random sample-to-sample variation. The technique can reveal both large deviations in a single category and small but persistent differences over multiple categories.

Before performing the chi-square test, it is important to ensure the data satisfy certain assumptions. First, the data must be in the form of actual frequency counts. By organizing the data according to the number of online retailers participating in each type of sales promotion, as shown in Tables 1 and 2, the data meet the first criterion. Second, the data must meet the independence assumption, which is again true because the counts in our data set are independent of each other. In other words, the sales promotion activities are not mutually exclusive. Participating in one type of sales promotion does not preclude the e-commerce retailer from participating in other sales promotion methods. Moreover, the adoption of one type of sales promotion does not necessarily influence the e-commerce retailer’s decision to participate in other sales promotions. Finally, the data must be organized in a contingency table to determine the expected frequencies.

In analyzing the data, the chi-square test for homogeneity was performed to determine whether the hedonic product retailers and the utilitarian product retailers used similar proportions of sales promotion. The results in Table 3 show that, contrary to our hypothesis, there is a statistically significant difference between the two product categories with regard to their use of online sales promotion. However, whereas utilitarian products were historically more likely to utilize sales promotion in the traditional media environment (Choi et al. 2012), the difference in the prevalence of sales promotion in the online environment is actually attributable to a greater utilization of online sales promotion by marketers of hedonic type products.

**Table 3: Chi-Square Test of Differences between Hedonic Versus Utilitarian Sales Promotions**

	Chi-Square Statistic	DF	p-value
Pearson Chi-Square	143.289	3	0.000
Likelihood Ratio	144.946	3	0.000

## Conclusion

Advances in customer relationship management (CRM), relationship marketing, and information technology have led marketers to create carefully targeted promotions directed to ever more precisely segmented consumer markets (Thompson, Gooner, & Kim 2015). Moreover, the interactive and one-one-one nature of the Internet makes it an ideal channel to deliver targeted consumer promotions (Zhang & Wedel 2009).

This is because online promotions can be modified, updated, and specifically directed to individual consumers based on their profiles and shopping patterns. Therefore, by facilitating the development of targeted promotions that are customized for each consumer on each online shopping trip, the internet has greatly improved the effectiveness of promotional spending (Zhang & Krishnamurthi 2004). Although this may be true for most product categories, the current study reveals that online sales promotion has become most prevalent for hedonic products. In other words, the online environment has propelled the use of sales promotion to the forefront of the hedonic product marketer's toolbox.

This finding suggests additional research questions. For example, although we know that online sales promotion is prevalent among hedonic products, how do online retailers select the specific forms of sales promotion available? In addition, are there any particular consumer characteristics that are associated with the likely effectiveness of the various forms of sales promotion? Finally, additional research may seek to analyze online promotions by the specific retail category. E-commerce retailers primarily fall into one of four categories: online only retailers, hybrid "bricks-and-clicks" retailers, "infomediaries" such as catalogs and call centers, and consumer brand manufacturers utilizing online retailing as part of a "dual distribution" strategy. Considering the desirability of matching the promotional mechanism to the retailer's unique competitive circumstances, it is of both theoretical and practical importance to determine if there is a relationship between e-commerce merchant type and use of the various forms of online promotion. By answering these and other related questions, future research will be capable of shedding additional light on what the current study reveals to be the increasingly popular practice of online sales promotion for hedonic products.

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**Keywords:** *hedonic, utilitarian, online, sales promotion*

**Relevance to Marketing Educators, Researchers, and Practitioners:** This paper is useful to understanding the current sales promotion practices of online retailers. In particular, the paper provides insight concerning the differences in online sales promotion between hedonic and utilitarian products.

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