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ADVERTISED VERSUS UNEXPECTED NEXT PURCHASE COUPONS: CONSUMER SATISFACTION, PERCEPTIONS OF VALUE, AND FAIRNESS

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Abstract

Purpose – The research investigates how consumers differ in their interpretation of advertised and "surprise" (or unexpected) next-purchase coupons as delayed rewards or immediate losses based on promotion context and coupon start date restrictions.

Design/methodology/approach – Two laboratory experiments examine how consumers respond to next-purchase coupons. In Study 1, next-purchase coupon types (advertised; unexpected) vs. competing brand promotions (yes; no) vs. coupon start date restriction (unrestricted; restricted to future start date) between-subjects experimental design was used to examine the impact on purchase satisfaction, perceived promotion value, and perceived retailer fairness. In Study 2, four between-subjects factors were used to examine the impact on purchase satisfaction, perceived value, and retailer fairness: next-purchase coupon type vs. coupon start date restriction vs. coupon target restriction (brand-specific; non brand-specific) and the measured need-for-cognition variable (high; low).

Findings – Study 1 indicates that unexpected next-purchase coupons lead to higher purchase satisfaction but lower perceptions of retailer fairness compared to advertised coupons. Study 2 indicates that consumer predisposition toward effortful thought (NFC) amplifies the impact of unrestricted start date on perceptions of retailer unfairness. Furthermore, this effect is stronger on purchase satisfaction and perceived value for unrestricted unexpected next-purchase coupons.

Research limitations/implications – Results imply that advertised and unexpected next-purchase coupons differ in their impact on post-purchase outcomes of consumers. Differences in competing brand promotions and coupon start date restrictions lead to interpretations of next-purchase coupons as immediate loss vs. delayed gains.

Practical implications – Managerial implications for the design and use of next-purchase promotions are discussed.

Originality/value – The research paper is the first one to study how consumers respond to checkout or next-purchase coupons.

Keywords: Counterfactual, Coupons, Delayed incentives, Next-purchase, Loyalty, Regret

Coupons are an important promotion vehicle for both manufacturers and retailers, accounting for $3 billion in consumer savings (of $250 billion dollars distributed) on packaged goods purchases (NCH Marketing 2004). To stem the decline in coupon redemptions and to increase the effectiveness of their coupon offers, retailers are using a variety of coupon delivery methods to target coupon offers to specific customer segments. In recent years, a new type of coupon, the "next-purchase" (also called checkout or handout) coupon has gained popularity in grocery stores (Catalina Marketing's Checkout coupon), services (e.g., hair salons, restaurants, oil change, and auto repair), pharmacies, home appliance, department, and online stores, among others. We will use the term "checkout" and "next-purchase" coupon interchangeably to refer to coupons issued immediately after a purchase for redemption at the next visit or purchase occasion within the specified period at the issuing retailer.

While the effects of coupons on purchase behavior have been extensively studied (Blattberg and Neslin, 1990), the implicit assumption in these studies is that coupons were dropped or made available prior to the consumer paying for the product at the store. There is considerable research indicating that differences in framing and timing of price reductions can change consumers' perception of the promotion offer, purchase decisions and purchase satisfaction. However, little is known about how consumers re-evaluate their current purchase outcomes on receipt of a next-purchase coupon that could have reduced the price they just paid. This research addresses this gap by investigating how advertised and unexpected next-purchase coupons impact current visit outcomes. We show that differences in coupon restrictions and competing brand promotions affect satisfaction with a current purchase decision, perceived promotion value, and retailer fairness.

Next-purchase coupons are electronically dispensed after payment for a product or service, printed at the bottom of the cash register receipt, or on a separate scanner sheet, or offered as a free standing insert. Next-purchase coupons differ from traditional coupons in two respects. They are likely to be better targeted and represent future savings, whereas traditional coupons offer immediate savings. They are typically targeted to current purchasers of a product category, brand, or service, and are likely to

have higher redemption rates than non-targeted coupons (Catalina Marketing claims redemption rates of eight percent compared to traditional coupons at 1.8 percent). They offer many benefits to the issuing retailer, by accelerating purchase cycles, increasing retention, consolidating purchases, increasing multiple item purchases, migrating consumers to shopping channels preferred by retailers (cross-channel coupons) and brand switching (if offered by a competitor). Most of these benefits accrue, however, if consumers retain the coupon and it induces the consumer to select the promoted brand or service provider on the next purchase. Critics of next-purchase coupons cite that it subsidizes consumers who would have purchased the brand or visited the service provider anyway, thus lowering profit margins. Furthermore, once issued, consumer use and redemption patterns of next-purchase coupons will be similar to traditional coupons since they can only be redeemed at the next purchase. Hence next-purchase coupon users will be a subset of coupon users who are favorably disposed to using coupons and may be less effective than loyalty cards or automatic coupons (Park and Gomez, 2004).

Retailers differ in objectives they seek from use of next-purchase coupons. Differences in design and delivery of next-purchase coupon offers with respect to the purchase event may lead to differential responses by customers. Advertised next-purchase coupons are presented (or displayed on product shelves) along with the base price of the product (for example, $99.99 + $10 off your next purchase) to increase prominence and stimulate sales of the promoted product without impacting immediate profit margins and increase future product sales. In contrast, consumers are not aware of the "surprise" or unexpected next-purchase coupon offer until the product is purchased, i.e., the printing of the coupon is triggered after the product is scanned or paid for. It is expected to increase future purchase probability without impacting current purchase probability (since the consumer is unaware of the next-purchase coupon offer while making the purchase decision).

Prior coupon research has primarily studied direct mail coupons (Bawa and Shoemaker, 1987) newspaper coupons (e.g., Neslin, 1990) cross-ruff coupons (Dhar and Raju, 1998) and package coupons (Raju et al., 1994; Dhar et al., 1996). Raju et al. (1994) and Dhar et al. (1996) investigate the impact of

on-pack, in-pack, and peel-off coupons, as well as market share and profits. Advertised and unexpected next-purchase coupons share many similarities to on-pack and in-pack coupons, respectively. However, they differ in several important aspects. First, manufacturers drop pack coupons which are valid at any retailer for the purchase of the same product or other products in the manufacturer's product line. In contrast, next-purchase coupons are typically offered for future purchases at the retailer and may or may not be restricted to specific products. Second, knowledge of an on-pack or in-pack coupon offer is usually known prior to purchase. In-pack coupons may not always be advertised on the pack, i.e., not known prior to purchase (similar to surprise next-purchase coupon). However, there is temporal separation between the payment occasion (in store) and knowledge of the delayed reward (at home, on opening the package at first use) for in-pack coupons. The longer the temporal separation the greater the chance that the consumer has forgotten the purchase occasion, context, and the price paid. In contrast, for next-purchase coupons, the financial sacrifice (paying for current purchase) is immediately followed by delayed reward (receipt of next-purchase coupon with the checkout receipt) making next-purchase coupons more salient (than in-pack coupons) and difficult to avoid affective post-purchase evaluations by the purchaser.

Earlier papers have studied the impact of on-pack coupons on next purchase. They assume that the receipt of a coupon for a future purchase has no effect on current purchase outcomes or fairness perceptions towards the manufacturer or retailer. However, research indicates that people often compare purchase price paid to alternative pre-purchase, and post-purchase purchase scenarios which affect current purchase outcomes (Cooke, Meyvis, and Schwartz, 2001). Furthermore, there is a need to examine the effectiveness of next-purchase coupons in competitive contexts. Research on in- and on-pack coupons apply to a monopoly market (multiple sizes of the same brand) for low price/involvement goods where purchase decision-making is habitual with limited scope for post-purchase evaluation. In contrast, next-purchase coupons are used as alternatives to instant promotions in loyalty and customer relationship marketing programs in durable and non-durable product categories, and consumer decision making and post-purchase evaluation in some cases may be extensive and complex.

Based on established research in framing and contextual effects of prices and promotions and counterfactual comparisons we examine how next-purchase coupon type, promotions on competing products, and coupon start date restrictions lead to different interpretations of next-purchase coupons in the context of moderately priced and low priced goods. The first study was conducted in the context of moderately priced goods. We show that consumers differ in their perception of a next-purchase coupon, either as a delayed reward or an immediate loss. The second experiment used low priced goods as stimuli and examined the effect of promotion target restrictions and consumer need for cognition. Our findings have implications for design and timing of next-purchase coupons to increase purchase and coupon retention in the short-term, and perceptions of retailer unfairness in the long-term.

Background

To our knowledge, there is no published research on next-purchase or checkout coupons. However, research on package coupons has bearing on this research. Based on findings in self-perception theory, Dodson et al. (1978) argues that on-pack coupons are less detrimental to brand loyalty because of their restricted availability and the greater effort needed on the part of the consumer to redeem them. However, next-purchase coupons have become a standard promotional tool in many industries and are offered on a continual basis. Dhar et al. (1996) found that for high-share brands on-pack and in-pack coupons can lead to higher brand profits than instant peel-off coupons, even though on-packs have a lower probability on redemption compared to peel-offs, and in-packs have lower redemption rates compared to peel-offs and in-packs. Next-purchase coupons represent delayed incentives at the time of offer, requiring an additional purchase in the future to redeem the savings. Soman (1998) showed that the face value of delayed incentives drive choice to a larger extent than the effort required to redeem them, hence future effort is underweighted relative to future savings. However, little is known whether consumers discount future savings and effort (and expense in our case) when delayed incentives are

unexpectedly thrust on them instead of being selected. Heilman et al. (2002) investigated the role of unexpected in-store promotions and found that surprise promotions increase unplanned purchases and size of the shopping basket. While these studies have implications for advertised next-purchase coupons, or situations where the promotion offer knowledge is available prior to purchase, many issues relating to post-purchase outcomes of advertised and unexpected next-purchase coupons remain unanswered.

Conceptual Framework and Hypotheses

Consumers draw economic (savings), informational, and affective inferences from promotions (Raghubir and Corfman, 1999). Retailers offer promotions to communicate utilitarian (or financial) gain, however, contextual factors lead to differences in how consumers decode utilitarian and hedonic benefits of the promotion. Some factors are under retailer control, such as promotion features and restrictions, whereas others, like competitors' (instant) promotions and target market characteristics (e.g., deal proneness, need for cognition) may be outside the retailer's control. Table 1 presents variations in next-purchase coupon features used by retailers, each of which can lead to differences in the framing of the same objective financial savings.

[Take in Table 1]

Next-purchase coupons require the consumer to make a monetary sacrifice now (by purchasing a product) for a delayed reward in the future. Research on delayed incentives suggests that the effort or expense required in future to acquire the savings is underestimated at the time of brand choice (Loewenstein, 1996). The saving (face value of the delayed incentive) is vivid, salient, and unambiguous and can be integrated easily with the price the consumer pays at the time of purchase (Soman and Lam, 2002). The temporal proximity between the immediate sacrifice and delayed gain imply that affective responses will be activated. Prior research suggests that affective responses may range from excitement and thrill at receiving a savings (Chandon et al., 2000) to regret at missing savings (Inman and McAlister,

1994). Moreover, consumers will ascribe attributions to themselves and their purchase decisions (e.g., "smart shopper") and motives of external agents like retailers which impact their post-purchase outcomes and perceptions of fairness in the exchange (Campbell, 1999). It is important to note that salience of the next-purchase offer on receipt or delayed incentive plays an important role in motivating future purchases (Soman and Lam, 2002).

In the first study we examine how different promotion features (next-purchase coupon type: advertised vs. surprise, and start date restrictions: no explicit start date vs. explicit future start date) and competing brand instant promotions (yes vs. no) impact affective responses to the same objective promotion. Restrictions on promotion act to constrain consumers' ability to take advantage of the promotion and influence perceived promotion value and retailer fairness. Restrictions activate cognitive resources used to judge the favorableness or unfavorableness of an offer, however, consumers differ in their ability and willingness to do so. In the second study, we examine the role of individual difference variables, such as need for cognition (Haugtvedt, Petty and Cacioppo, 1992) in determining the overall attractiveness of a next-purchase promotion offer and post-purchase outcomes.

Study 1: Effects of Advertised vs. Unexpected Next-Purchase Coupons

Prior literature on satisfaction and post-purchase evaluation suggests that standards prompted by performance observations after consumption may lead to a re-evaluation of original purchase decision. Consumer post-purchase outcomes will vary based on whether the consumer knew about the offer prior to the purchase decision (advertised checkout coupon) or only found out after purchasing the product (unexpected checkout coupon), even if the consumer actually gets the physical coupon immediately after purchase in both cases. Both cases are factually equivalent for the same objective value of the coupon—the consumer has purchased the product and then got a $5 off coupon towards their next purchase at the retailer. However, consumer evaluation of their purchase decision will differ based on how they frame the

promotion offer in both cases. In the former case the customer has already integrated the utility or value of the next-purchase coupon in the product purchase decision. Receiving the actual coupon is the expected outcome. In the latter case, the consumer paid full price for the product and became aware of the promotional offer only after completing purchase. Since the surprise coupon offer was not integrated into the purchase decision, it may lead to a re-evaluation of the purchase decision.

Research on equity would suggest that receiving the unexpected coupon after the purchase may lead to the individual being over-benefited. The unexpected benefit represented by the face value of the coupon looms large and influences evaluation of purchase decision to a larger extent compared to the effort and expense required to get the savings, which is underweighted (Soman, 1998). The purchaser had already perceived the net value from purchasing the product was positive. Since the unexpected next-purchase coupon did not negatively impact the product's performance utility or its cost, the receipt of unexpected additional savings (though delayed) should, at worst, not affect purchase outcomes at all or, at best, lead to favorable feelings and unplanned purchases (Heilman, Nakamoto and Rao, 2002). This will also lead to favorable attributions to the external agent (the retailer). Hence,

H1: Purchasers receiving an unexpected next-purchase coupon (a.) will be more satisfied with their purchase decision, (b.) have higher perceived deal value and (c.) have higher perceptions of retailer fairness, compared to purchasers receiving an advertised next-purchase coupon.

Effect of (Pre-Purchase) Promotion Context

There is clear evidence in the pricing literature that the context in which a product is seen influences how consumers judge both this and other products (Briesch et al., 1997). Presence of other alternatives, prices, and promotions associated with them can alter perceptions of the focal product by altering the internal reference standard from which a product or its price is evaluated or the range of values that people consider applicable to the judgement situation (Ostrom and Upshaw, 1968). Consumers make positive or negative quality inferences when a brand's promotional activity deviates from industry norms (Raghubir and Corfman, 1999). A brand's promotion will not be informative of its quality in a

category where promotions are common because the promotion is attributed easily to industry norms. Hence we expect exposure to competing brand instant promotions to influence purchase incidence and post-purchase outcomes of next-purchase coupons.

Consumers perceive a high likelihood of promotion in the product category when most brands are presented as base price minus instant promotion savings. In the high promotion context condition, if the focal brand is presented without any promotion (as in unexpected next-purchase coupon), purchasers make positive inferences about why the retailer deviates from category norms to justify their choice. Upon post-purchase they are surprised with the receipt of a next-purchase coupon, which invalidates their earlier inferences of the retailer's motives in not offering promotions. Research on hindsight bias suggests the reaction to the unexpected next-purchase coupon will be "I knew it all along" (since most other brands were offering promotions) or "should have expected it" leading to regret (Sugden, 1985). When no brands promote, purchasers make quality inferences to justify their choice, receiving the unexpected next-purchase coupon after purchase does not invalidate their earlier inferences.

In contrast, when next-purchase coupon offers are advertised, consumers compare the delayed rewards with prices (after instant promotion savings in high promotion context) of competing brands. Since consumers incorporate the next-purchase promotion offer in their purchase decision-making, the receipt of the coupon after purchase validates their pre-purchase expectations, hence we do not expect any impact on post-purchase perceptions of unfairness, purchase satisfaction, and deal evaluation[i]. Hence,

H2. When competing brands promote, purchasers receive unexpected next-purchase coupons (a.) will be less satisfied with their purchase decision, (b.) have lower perceived deal value and (c.) have lower perceptions of retailer fairness compared to purchasers receiving an advertised next-purchase coupon.

Effects of Next-Purchase Coupon Start Date Restriction

Retailers specify restrictions on the use of coupons in order to increase attractiveness and prevent misuse, yet restrictions on traditional coupons in terms of minimum purchase conditions and narrow

redemption periods have been shown to lead to perceptions of unfairness and low usage rates (Raghubir and Corfman, 1999). Next-purchase coupons may not explicitly specify an explicit start date (hence be used for additional purchases during the same shopping trip) or have a specific future start date. Next-purchase coupons that can be used for other purchases during the same shopping trip offer more flexibility and ease in redemption and are likely to be more attractive to customers than coupons that can only be used on later shopping trips, increasing the perceived value of the next-purchase coupon.

Consumers receive next-purchase coupons only after completing their purchase and discover start date restrictions immediately thereafter. Start date restrictions can have implications on how consumers frame the next-purchase promotion offer. The fact that the next-purchase coupon with no start date is actually valid during the current visit is a surprising discovery for recipients of both advertised[ii] and unexpected next-purchase coupons. Surprising post-decisional positive outcomes have been shown to lead to regret and disappointment (Harrison and March, 1984). The visceral reaction to an (objectively) positive or negative surprising event can lead to the creation or imagining of a separate reality of "what might have been" or the reconstruction of expectations as comparison referents in evaluating post-purchase outcomes (Loewenstein 1996). The ease with which alternative outcomes like the availability of unrestricted “$5 off coupon before completing purchase,” can be imagined to event receiving coupon after purchase, and expectations can be reconstructed which determine the impact on purchase decision satisfaction.

The lack of start date restriction on next-purchase coupons makes it relatively easy to mutate (i.e., change) the particular unexpected feature (i.e., availability of coupon pre- rather than post-purchase) that can result in better outcomes (Kahneman and Tversky, 1982). Hence the comparison of one's current outcome (pay full price) with a situation-focused counterfactual (could have saved $5), which leads to a perception of immediate loss. This mental stimulation can influence post-purchase outcomes, especially purchase satisfaction through its effect on affect. The external attributions of situation-focused counterfactuals on disappointment (cf. Zeelenberg et al., 1998) will impact perceptions of retailer

unfairness. In contrast, when the next-purchase coupon is explicitly restricted to a future start date, mutating the availability to pre-purchase does not lead to a better alternative outcome since the coupon could not be used due to start date restrictions. Hence,

H3. Unrestricted start date next-purchase coupons will lead to (a.) lower purchase satisfaction, (b.) higher perceived value of coupon and (c.) lower perceptions of retailer fairness than restricted start date next-purchase coupons.

According to regret theory, comparison to even better outcomes (by imagining alternative unrealized situations or counterfactuals), can detract from satisfaction (or add to dissatisfaction) of one's objectively good outcomes (Sugden, 1985). Consumers surprised by unrestricted surprise next-purchase coupons after completing purchase, are more likely to mentally simulate alternate situations than those receiving unrestricted advertised next-purchase coupons. Medvec et al., (1995) argued that the differences in emotional reactions of Olympic athletes (i.e., bronze medalists were found to be happier than silver medallists) were driven by comparisons with the most easily imagined alternative outcome. Hence,

H4. Restricted (unrestricted) start date surprise (advertised) next-purchase coupons will have (a.) higher purchase satisfaction, (b.) higher perceived value of the coupon and (c.) higher perceptions of retailer fairness than unrestricted (restricted) surprise (advertised) next-purchase coupons.

Method

Procedure and Measures

For this study, the participants were 391 undergraduate Introductory Marketing students at a large northeastern university who earned partial course credit for their efforts. To maintain student interest, USB flash drives were chosen as the product category since the University had recently announced a reduction in copying machines in libraries and recommended use of USB flash drives. We used a 2 x 2 x 2 full factorial between subjects design to examine the effect of the type of next-purchase coupon (2

conditions – advertised coupon, unexpected coupon), competing promotions (2 conditions – yes, no) and coupon start date restrictions (2 conditions – no start date; explicit future start date). Subjects were randomly assigned to one of the eight conditions. We used an actual next-purchase coupon promotion that was used by an electronics retailer who did not have stores in the northeast. All participants read the same cover story, that of a fictitious store located close to campus, which wanted student input on product lines they should carry.

All subjects were exposed to a shopping page with six fictitious brands (with similar attributes and irrelevant differentiating features – shape and color availability) of 518 MB USB drives, and brand names were rotated across subjects. Subjects were asked to make a purchase decision. Images of other products the retailer sold were placed as banner ads. We manipulated competing promotion conditions by modifying the shopping page (as shown in Table 1). The prices of brands in both the promotion context conditions were the same. In the high promotion condition, prices of four competing brands were presented as base price minus $5 off purchase. The base price of the lowest competing brand was shown as $54.99 minus $5 instant rebate in high promotion condition and $49.99 in low promotion context condition. Start date conditions were manipulated by adding start date (one week after purchase) in the restricted "future start date" condition, but no start date was mentioned in the "no start date" condition. In both start date conditions the coupon expiration date was printed as four months past the purchase date.

[Take in Table 2]

In the advertised next-purchase coupon condition, the focal brand indicated a price of $49.99 with a $5 off coupon on the next purchase of the product at the retailer. These participants then indicated purchase/no purchase by placing products in the shopping cart and clicking checkout. A receipt with the next purchase coupon was displayed and subjects could select to print the coupon. Students then responded to questions on dependent measures. In the unexpected next-purchase coupon condition the focal brand indicated a price of $49.99. Subjects indicated purchase intent by placing products in the

shopping cart and clicking checkout. Their computer screen then displayed the next-purchase coupon for $5 for their next purchase and subjects could select to print it. Subjects who did not purchase, clicked exit, answered questions on manipulation measures and relevant dependent measures. All subjects were debriefed and thanked for their participation.

Dependent Measures: Purchase or non purchase outcomes were collected from clickstream data since all participants logged in with their university email ID and password in order to participate and get credit for the experiment. Survey questions to collect perceptual measures were integrated into the online experiment. Subjects who made purchases were asked to list whatever thoughts ran through their mind immediately after they were shown the receipt screen. Immediately thereafter subjects completed a three-item regret scale on a ten-point scale (that assessed the subjects' regret in regards to the decision to purchase, α=0.79, p<0.001) (Inman and Zeelenberg, 2002). "How much would you regret your decision to buy (not buy) the USB drive?" (anchored by not regret at all/regret very much), "If you could do it over, would you change your decision?" (anchored by definitely would not change/definitely would change), and "How much happier would you have been if you had made a different decision?" (anchored by not much happier/much happier).

Purchase satisfaction was measured using a seven-point semantic differential scale anchored at: "I am definitely satisfied/I am definitely not satisfied." Perceived fairness was rated on a bipolar adjective scale (1 being very fair and 7 being very unfair) (Campbell, 1999). Perceived deal value was measured using a three-item, seven-point semantic differential scale bad deal/good deal, worthless/valuable, and unattractive to me/attractive to me (α=0.83, p<0.001) (Grewal et al., 1998).

Manipulation Checks. A pretest was conducted to see if descriptions for the two promotional coupons were perceived differently. Pretest respondents mentioned that differences were "minor," or "cosmetic." The perceived difference in promotion context was significant, as subjects mentioned an average of 4.9 (s.d.=2.9) vs. 0.7 (s.d.=0.2) brands were on promotion in the high vs. low promotion context (t=3.12,

$p<0.001$), indicating that the promotion context manipulation was successful. Subjects also completed a three-item believability scale in our studies. This scale was entered as a covariate in the analyses and was insignificant. Thus, it is not discussed further. Respondents did not significantly differ in their familiarity with USB drives or probability of future purchases at the campus store across conditions.

Results

A 2 x 2 x 2 between-subjects MANOVA was used to analyze the data from 273 purchasers (69 percent purchasing) of the focal brand. In practice, the next-purchase coupon is issued only after purchase, hence data from 118 subjects who did not purchase the focal brand were not used for post-purchase outcomes. The multivariate test of significance was conducted according to Wilks' Lambda and is in Table 3.

[Take in Table 3]

We found significant main effects for next-purchase coupon type, competing promotion, and coupon type x coupon usage restriction. Hypothesis 1 predicts that receipt of an unexpected next-purchase coupon will lead to higher customer satisfaction, perceived retailer fairness, and deal value. We found a significant multivariate main effect of coupon type, Wilks' Lambda=0.967, $F(2,264)=5.24$, $p<0.01$. Subsequent univariate analyses indicated significant main effects of coupon type for purchase satisfaction, $F(1, 264)= 10.88$, $p= .001$. A follow-up analysis using the Scheffe procedure indicated that subjects receiving unexpected coupons expressed significantly ($p <0.05$) higher satisfaction than those in the advertised coupon condition (*H1a* supported). Univariate analyses showed significant main effects of coupon type $F(1, 264)=4.92$, $p<0.031$ for perceived retailer fairness (*H1c* supported). Fairness perceptions associated with unexpected coupons were significantly lower than for advertised coupons.

In addition to the main effect of coupon type, we found a significant competing promotion by coupon type interaction $F(2, 264) = 9.21$, $p <0 .001$, for perceived retailer unfairness. Univariate tests $F(1, 264)=8.16$, $p<0.01$ showed that in high-promotion context subjects receiving an unexpected next-

purchase coupon perceived the retailer as significantly more unfair than those who were not exposed to competing promotions [Unexpected vs. Advertised (5.2 vs. 3.8, $p<0.05$)], whereas unfairness perceptions did not significantly differ across promotion conditions among those who received unadvertised coupons [Unexpected vs. Advertised (2.7 vs. 2.9, $p>0.05$)] (*H2c* supported). Our analyses indicated a significant multivariate next-purchase coupon type x start date restriction, $F(1, 264)= 6.68$, $p=0.006$. Univariate analyses supported this significant interaction for purchase satisfaction $F(1,264)=8.06$, $p<0.01$ and perceived promotion value $F(1,264)=5.16$, $p<0.01$ (see Figures 1 and 2). In this interaction, *t*-tests indicated that subjects with surprise next-purchase coupons were significantly more satisfied with their purchase decision, $t=2.85$, $p<0$ .005 when the coupon had an explicit future start date compared to when there was no start date. In contrast, subjects in the advertised next-purchase coupon condition did not significantly differ in their purchase satisfaction across the start date restriction conditions (*H4a supported*).

Subjects in the unexpected next-purchase coupon condition found the restricted start date coupon significantly more attractive than subjects who received unrestricted (no start date) coupons, $t =4.398$, $p<0$ .001 (*H4b* supported). In contrast, receipt of advertised next-purchase coupons with no start date led to significantly higher perceived value of the coupon compared to when consumers received advertised next-purchase coupons with a future start date ($t = 5.43$, $p<0$ .01). Hence unrestricted advertised coupons seem to have the windfall effect, but restricted advertised next-purchase coupons are valued significantly lower than their unexpected counterparts ($t = 1.99$, $p<0$ .05). There were no other significant univariate main effects or interaction effects for purchase satisfaction, perceived promotion value, or retailer unfairness.

We calculated the average of participants' ratings on the regret items to examine if regret impacts consumer perceptions. In contrast to our expectations, we found that consumers receiving unrestricted next-purchase coupons did not report significantly more regret than those receiving restricted coupons (3.96 vs. 3.57, $p>0.05$). This parallels non-significant results for start date main effect (*H3* a, b, or c).

However, consumers receiving unexpected coupons with no start date reported marginally more regret than those receiving unexpected coupons with an explicit start date (4.11 vs. 3.23, $p<0.09$). Regret scores were not significantly different among consumers receiving restricted or unrestricted advertised next-purchase coupons.

Discussion

In summary, subjects receiving unexpected next-purchase coupons are more satisfied with their purchase decision but have higher retailer unfairness perceptions than those receiving advertised next-purchase coupons. Our explanation that consumers perceive unexpected coupons as an attempt by the retailer to deceive, lock-in, or manipulate consumers (Campbell, 1999) appears to have been supported. Consumers receiving advertised coupons may not perceive the retailer to be unfair because they had *chosen* to buy the brand with a next-purchase promotion over competing instant promotion offers. Since they pay the lowest price, having the next-purchase coupon is more preferable than not getting it at all.

While we did not find a significant main effect of start date restrictions (*H3a*, *b*, or *c* were not supported), there were significant differences in impact on purchase satisfaction and perceived coupon value based on whether the next-purchase coupons were advertised or unexpected. Receiving an unrestricted next-purchase coupon unexpectedly after purchase lowers valuation of the coupon ("I am done buying, I can't use it now, I could have used it before" – a subject's statement), and the re-evaluation of their purchase decision, including "the value of coupon was factored into the purchase price." An unexpected coupon with an explicit future start date is valued significantly higher than one without an explicit start date and brings forth thoughts about potential future patronage. Unrestricted next-purchase coupons did not have to be redeemed on current visit, however, those receiving them unexpectedly focused on immediate use—this may be totally unintended by the retailer. Nevertheless, these results indicate that the type of the next-purchase coupon has a significant effect on perceived promotion value and retailer unfairness perceptions.

The non-significance of main effect of start date restriction, but strong interaction effects with

coupon type may be due to individual differences in processing coupon information and *noting the absence* or expectation of a start date. Typical coupons have expiry dates but no start dates. Individual differences in cognitive processing of coupon information may moderate consumer responses to start date restrictions, which we examine in Study 2. Furthermore, we examine whether our findings can be generalized to frequently-purchased grocery products and for coupons that are valid for next-purchase on brands that are commonly observed in the grocery industry.

Study 2. Moderating Effect of Need for Cognition

Need for cognition (NFC) is one of the determinants of the motivation to process information content (Haugtvedt, Petty and Cacioppo, 1992). Consumers differ in their tendency to engage in effortful, systematic thinking. Specifically high NFC individuals are more likely to process information thoroughly and use it as a basis for judgments than those with low NFC (Haugtvedt, Petty and Cacioppo, 1992). High NFC individuals are also more likely to rely on less obvious or missing information (Pham et al., 2001).

Prior research suggests that low NFC subjects would use the term "next-purchase" as a heuristic cue and are less likely to note or make inferences when a next-purchase coupon does not have an explicit start date. Hence we do not expect to find differences in response by low NFC individuals to coupon start date restrictions. In contrast, high NFC individuals in both unrestricted and restricted start date conditions are more likely to invest cognitive resources in assessing the offer. Higher levels of cognitive involvement are preconditions to the generation of counterfactuals, hence high NFC individuals are more likely to generate upward counterfactuals compared to low NFC individuals when next-purchase coupons don't have an explicit start date. Hence we hypothesize,

> *H5. Unrestricted start date next-purchase coupons will lead to (a.) lower purchase satisfaction, (b.) lower perceived value of the coupon, and (c.) lower perceptions of retailer fairness for high NFC individuals than restricted next-purchase coupons, but not for low NFC individuals.*

In Study 2 we examine the proposed hypotheses in study 1 at the individual level in high promotion context when the differential impacts on post-purchase outcomes occur. We consider frequently-purchased grocery products which are less likely to lead to negative outcomes compared to more expensive and less frequently purchased USB drives in Study 1. We examined if responses differed for next-purchase coupons valid on next-purchase of the same or any brand.

Method

Procedure and Measures

For this study, the participants were 419 undergraduate Introductory Marketing students at a large northeastern university who earned partial course credit for their efforts. We used a 2 x 2 x 2 x 2 full factorial between subjects design to examine the effect of type of next-purchase coupon (2 conditions – advertised coupon vs. unexpected coupon), coupon start date restrictions (2 conditions – no start date vs. explicit future start date), promotion target (2 conditions – valid on next purchase of same brand vs. any brand) and need of cognition (measured: high vs. low). Subjects were randomly assigned to one of 16 conditions.

Similar to Study 1, students were asked to purchase one of the two product replicates used in the study, detergent (100 oz) and frozen ice cream (half gallon) from a fictitious retailer in a high-promotion context. Similar to Study 1, the high promotion context was created by presenting four competing brands as base price minus instant coupon savings in all experimental conditions.

Measures: One week prior to the experiment subjects answered the 18-item need for cognition scale (Cacioppo, Petty, and Kao, 1984). The median split was used to classify subjects into high or low need for cognition. Purchase cycle and average prices for twenty commonly purchased grocery products were also collected at this time, of which two were chosen as product replicates. Post-experiment measures of regret, purchase satisfaction, perceived deal value, and retailer unfairness were collected using the same scales described in Study 1. After the dependent measures were collected, students were asked to note all printed information they could recall from the next-purchase coupon. One point was awarded for each

piece of information recalled, as well as for any information they thought was missing from the coupon.

Results and Discussion

Preliminary analyses showed that the average NFC score was 82.4 (s.d. 10.8), after median split, the high NFC group had an average score of 97.6 (s.d. 8.3) and low NFC subjects scored 70.6 (s.d. 9.4). Analyses of the coupon information recall questions show that high NFC subjects scored an average of 6.2 (s.d. 1.4) significantly higher ($p<0.05$) compared to 3.7 (s.d. 2.1) by low NFC subjects. Furthermore, 71 percent (148) of high NFC subjects in the restricted coupon condition (208 subjects) correctly recalled the start date on the coupon compared to 39 (82) of low NFC subjects (211) thus supporting our contention.

A separate MANOVA with promotion target (coupon valid on next purchase of same brand or any brand) and product category as a fully crossed factor, revealed a baseline main effect, but no significant interaction with the other experimental variables. Scores for coupon valid on same brand and ice cream were systematically higher, but the pattern of responses across replicates was identical. For these reasons we pooled data for the two product replicates and promotion target and reported only aggregate results.

Results for the three-way multivariate MANOVA are in Table 4. Multivariate main effects of next-purchase coupon type and next-purchase coupon type x start date restriction were supported similar to Study 1. In the interest of space, we will only discuss the significant NFC x start date restriction interaction. Univariate tests show that this interaction is significant for perceived retailer fairness only. As predicted, in the no-start date condition, high NFC subjects perceived the retailer to be significantly ($p<0.05$) more unfair [5.4 (s.d. 1.2)] compared to low NFC subjects [3.52 (s.d. 1.4)]. High and low NFC subjects do not significantly differ in their fairness perceptions when the coupon has an explicit future start date (*H5c* supported), hence NFC moderates the response to start date restriction.

[Take in Table 4]

The three-way interaction effect for NFC, start date, and coupon type is illustrated in Fig. 3.

Univariate results indicated it is only significant for purchase satisfaction. For high NFC subjects, when a next-purchase coupon is advertised the presence or absence of a start date makes little difference ($p>0.05$). However, when the next-purchase coupon is unexpected, the presence of an explicit start date on the coupon leads to significantly higher perceived deal value compared to when there is no start date ($p<0.05$). In contrast, for low NFC subjects, unexpected next-purchase coupons are perceived to be of higher value than advertised coupons, but the presence, or absence, of a start date makes little difference for advertised or unexpected next purchase coupons.

[Take in Fig. 3]

Analyses of composite regret scores indicates that subjects reported lower regret scores for grocery products compared to USB drives in Study 1. Similar to Study 1, regret scores were not significantly different for unrestricted vs. restricted start dates. However, high NFC subjects with no-start date coupons reported significantly higher regret scores compared to those with explicit start date coupons (3.07 vs. 1.91, $p<0.05$). No such differences were significant for low NFC subjects. Furthermore, reported regret scores for high NFC subjects (M=4.06) receiving unrestricted surprise coupons were significantly higher (all $p<0.01$) than subjects in other conditions, unrestricted advertised coupons (M=2.87) restricted surprise coupons (M=0.85) and restricted advertised coupons (M=1.27). For low NFC subjects, regret scores were insignificantly higher for surprise coupons, but not for restricted or unrestricted start dates. This provides support for our contention that an explicit start date on a next-purchase coupon prevents mental simulation of alternative states and perception of immediate loss on receipt of next-purchase coupon for high NFC subjects, and surprise coupons amplify the effect.

Managerial Implications and Future Research

This study has a number of implications for use and design of next-purchase coupons in competitive shopping contexts. When the consumer is informed of the promotion offer – prior to purchase

(advertised) or after purchase (unexpected) determines whether the next-purchase coupon is perceived as a delayed reward or immediate loss. Unexpected next-purchase coupons lead to higher purchase satisfaction compared to advertised next-purchase coupons, but also perceptions that the retailer is unfair. More specifically, when competing brands offer instant promotions, unexpected next-purchase coupons are more likely to lead to perceptions of retailer unfairness even when buyers pay the lowest price in the product category. Hence use of unexpected next-purchase coupons as a loyalty-inducing tool may backfire and have unintended consequences. This effect may vary across face values of the next-purchase coupon and may disappear for implausibly high or low discounts, or when savings offered by a next-purchase coupon is relatively higher than instant promotions—a topic deserving of further investigation.

Coupon restrictions like presence or absence of explicit future start dates have contrasting effects on current purchase satisfaction and perceived coupon value. Consumers receiving an unexpected next-purchase coupon without an explicit start date are more likely to mentally simulate that they could have used it for immediate gain "only if" it had been available earlier, leading to a perception of immediate loss than with those receiving a start date restricted, unexpected next-purchase coupon. We demonstrate in our second experiment that this is true only for consumers with a high need for cognition, who are more likely to note and draw inferences when a start date is missing. Restricting a start date to future time periods appears to be the safest course of action for surprise coupons, though not for advertised next-purchase coupons. Our findings on restricted start date coupons support time discounting theory and hyperbolic discounting (Loewenstein, 1996). In our experiment, we manipulated the restricted start date to a week later. We expect results to differ should the start date be a month later. Reducing it to a day later would have enhanced the impact of regret at "just missing the deal." Consumer purchase cycles for a product category are critical inputs in designing next-purchase coupon offers. Hence the use of next-purchase coupons to accelerate purchases or increasing purchase volume through conditional next-purchase coupon offers (e.g., get $5 off next purchase of 2 or more units/$50 or more purchase) warrants rigorous investigation.

Effectiveness of next-purchase coupons depends on the customer retaining the coupon. We expect coupons with higher savings and lower future effort will increase retention and redemptions. However, little is known whether consumers also consider current efforts or financial sacrifice invested in acquiring the coupon (i.e., for advertised offers). Perceived deal value is a proxy for intention to retain and use the coupon in future, however, the salience of the next-purchase coupon in the consumer's mind, and its potency in inducing the next-purchase at the retailer, will decline over time as it competes with other instant promotion offers. Consumer response to receiving a competing brand next-purchase coupon (widely used in the FMCG industry) has implications for switching and redemption behavior, but little is known about their impact on internal reference price for focal and competing brands.

As more retailers compete through multiple channels and use a variety of promotional tools, cross-channel next-purchase coupons are used to promote and migrate consumers to desired channels. Research is needed on whether promotion intensity in target, or originating channel, or both, will determine the effectiveness of next-purchase coupons and the optimal design of these offers. Further magnitude of impacts may be asymmetric. This underscores the importance of optimizing and coordinating promotion offers across various channels simultaneously.

Table 1. Differentiating Features of Next-Purchase (N-P) or Checkout Coupons

N-P Coupon Features	Variations of Features Used by Retailers
Knowledge of N-P Coupon Offer	Prior to purchase (advertised) or After purchase (unexpected/surprise)
Coupon Start Date Offer Restriction	No start date or unrestricted (could be used on current visit) or Explicit future start date or restricted (cannot be used on current visit)
Promotion Target	Valid on N-P of currently purchased brand or Valid on N-P of any brand/product category ** or Valid on N-P of competing brand
Redemption Condition	Valid on N-P minimum purchase $ amount or Valid of N-P minimum purchase quantity or No explicit minimum purchase $ amount or quantity (only if promotion target is **)

Table 2. Experimental Stimuli (Study 1)

Promotion Context Condition				**Coupon Type Condition**	
High		***Low***		***Advertised***	***Unexpected/Surprise***
Alpha	$68.99-$5 off	Alpha	$63.99	Zeta $49.99 - save $5 on next-purchase	Zeta $49.99 ($5 N-P coupon after purchase)
Beta	$64.99-$5 off	Beta	$59.99		
Gamma	$62.99-$5 off	Gamma	$57.99		
Delta	$59.99-$5 off	Delta	$54.99	**Start Date Condition**	
				None	***Restricted***
Theta	$54.99-$5 off	Theta	$49.99	No start date	Start date one week after purchase

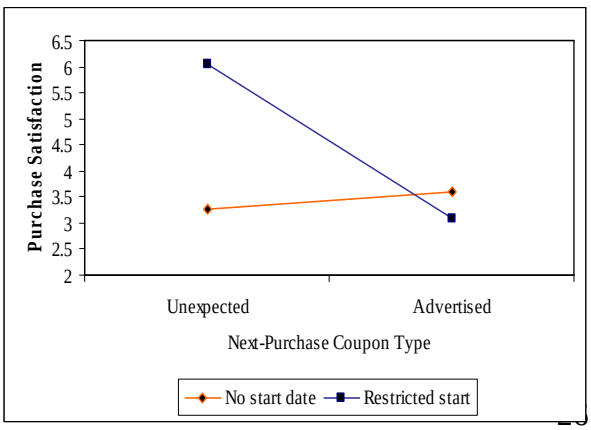
Table 3. Next-Purchase Coupon Type, Start Date Restriction, and Promotion Context (Study 1)

Source	Multivariate F	df	Univariate F
Main effects			
Coupon Type	**5.24**	2178	
Purchase Decision Satisfaction		1268	**10.88**
Perceived Promotion Value		1268	2.23
Perceived Unfairness		1268	**4.92**
Promotion Context	1.47	2178	
Start Date Restriction	0.62	2178	
Interactions			
Coupon Type x Promotion Context	**9.21**	2178	
Perceived Unfairness		1268	**8.16**
Coupon Type x Start Date Restriction	**6.68**	2178	
Purchase Decision Satisfaction		1268	**8.06**
Perceived Promotion Value		1268	**5.16**

Table 4. Next-Purchase Coupon Type, Coupon Start Date Restriction, Need for Cognition (Study 2)

Source	Multivariate F	df	Univariate F
Main effects			
Coupon Type	**6.39**	3386	
Purchase Decision Satisfaction		1385	**4.72**
Perceived Promotion Value		1385	**3.19**
Perceived Unfairness		1385	**3.06**
Need for Cognition (NFC)	2.47	3386	
Start Date Restriction	1.99	3386	
Interactions			
Start Date x NFC	**5.91**	3386	
Perceived Unfairness		1268	**4.95**
Coupon Type x Start Date Restriction	**4.06**	3386	
Purchase Decision Satisfaction		1385	**3.72**
Perceived Promotion Value		1385	2.15
Start Date x NFC x Coupon Type	**7.06**	3386	
Purchase Decision Satisfaction		1385	**4.26**

Figure 1. Next-Purchase Coupon Type x Start Date Restriction Interaction (Study 1)



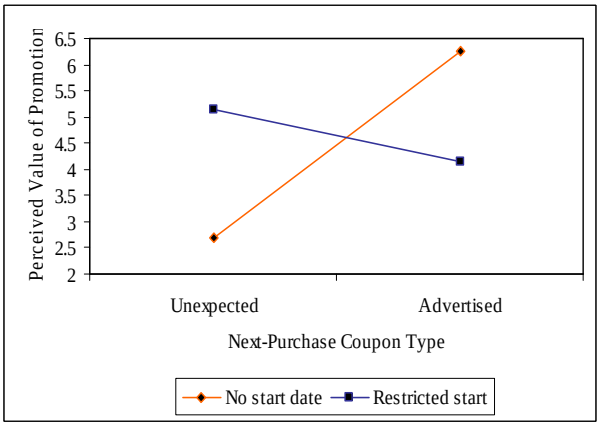


Figure 2. Need for Cognition x Start Date Restriction Interaction (Study 2)

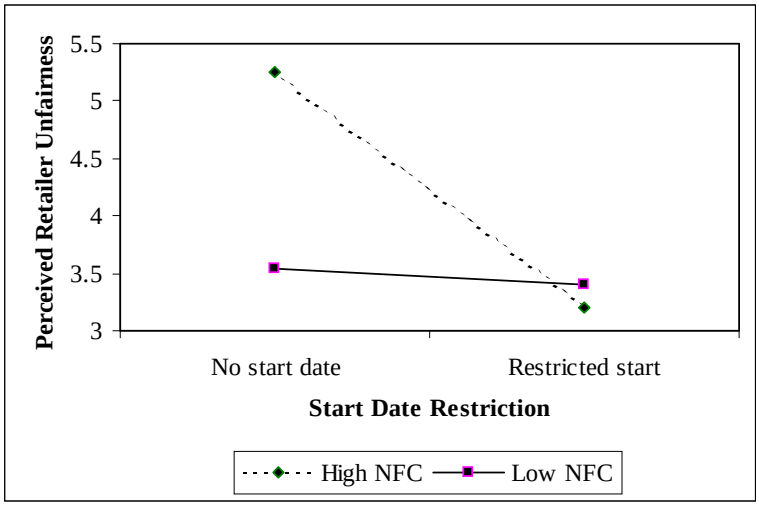
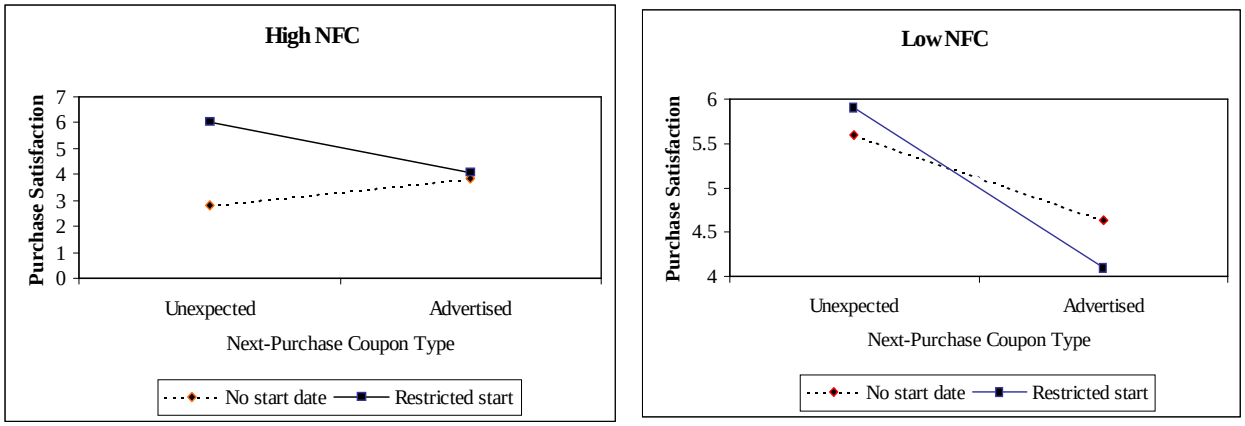


Figure 3. Need for Cognition x Coupon Type x Start Date Restriction Interaction (Study 2)



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[i] Prior research would suggest that next-purchase coupons offered in high-promotion context would lead to loyalty-related inferences for the promotion, but consumers may still be more responsive to instant savings over delayed gains (Quelch 1989). Since our focus is on post-purchase outcomes (and not purchase incidence) we specify our hypotheses for purchasers only.

[ii] The actual receipt of an advertised next-purchase coupon is expected and arguably does not lead to creation of counterfactuals. However, the absence of start date restrictions (if noted) on an advertised next-purchase coupon may be a "surprise," since consumers expect the next-purchase coupon to be valid for a future date.