

Why (and When) Are Uncertain Price Promotions More Effective Than Equivalent Sure Discounts?

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Abstract: Past research suggests that offering customers an uncertain promotion, such as an X% chance to get a product for free, is always more effective than providing a sure discount of equal expected value. In eight studies (N = 13,576), we find that uncertain price promotions are more effective than equivalent sure discounts only when those sure discounts are or seem small. Specifically, we find that uncertain promotions are relatively more effective when the sure discounts are actually smaller, when the sure discounts are made to feel smaller by presenting them alongside a larger discount, and when the sure discounts are made to feel smaller by framing them as a percentage-discount rather than a dollar amount. These findings are inconsistent with two leading explanations of consumers' preferences for uncertain over certain promotions – diminishing sensitivity and the overweighting of small probabilities – and suggest that people's preferences for uncertainty are more strongly tethered to their perceptions of the size of the sure outcome than they are to their perceptions of the probability of getting the uncertain reward.