

# HOW HEDONIC AND UTILITARIAN PREMIUMS DETERMINE PROMOTIONAL EFFECTIVENESS? THE CONTINGENT ROLE OF PRODUCT-PREMIUM FIT

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## ABSTRACT

*Despite the fact that premiums or gifts-with purchase are becoming common nonmonetary sales promotions, premiums may not always add value to a product, and the design of effective premium-based promotional offers is a key aspect to study. Our research tries to analyze what type of premium, hedonic or utilitarian, is more effective under two different conditions of product-premium fit. The results obtained from the experiment conducted shows that the relative dominance of hedonic items in a promotional context only occurs when there is a low fit between the product promoted and the premium. By contrast, utilitarian premiums dominate consumers' reactions under a high-fit condition.*

## Keywords:

premiums, product-premium fit, hedonic, utilitarian

## 1. Introduction

In comparison to price promotions, premiums or gifts-with-purchase are becoming common nonmonetary sales promotions (Chang, 2009). Premiums may not always add value to a product (Chang, 2009), and the design of effective premium-based promotional offers is a key issue. Previous research has provided empirical evidences that aspects such as premium attractiveness and product-premium fit (d'Astous and Jacob, 2002; d'Astous and Landreville, 2003), the reception delay of the premium (d'Astous and Landreville, 2003; Liao, 2006) and its monetary value (Bodur and Grohmann, 2005) influence consumer judgments about premium promotions. More recently, other studies have been focused on new premium characteristics that may enhance or reduce promotional effectiveness such as the hedonic or utilitarian nature of premiums (Palazon and Delgado-Ballester, 2010) and the visual size of the free gift offered in the promotion (Raghubir and Sawhney, 2011).

Previous research demonstrate that, in a gift-giving context, hedonic items have a greater popularity than utilitarian ones (see Dhar and Wertenbroch, 2000; O'Curry and Stahilevitz, 2001; Okada, 2005; Zheng and Rivetz, 2009). However, as different hedonic and utilitarian attributes become salient and gain prominence depending on characteristics of decision context (see for a review Okada 2005), it seems that the relative preference for a hedonic premium over a utilitarian one may be affected by characteristics of the promotional offer. In this sense, previous findings suggests that the effectiveness of premium promotions is enhanced by the fit or congruency between the premium and the promoted product (d'Astous and Jacob, 2002; d'Astous and Landreville, 2003; Liao, 2006). Therefore, the question that arises is whether hedonic premiums would be always preferred independently of the level of product-premium fit or, by contrast, whether product-premium fit conditions consumer preferences of hedonic and utilitarian premium promotions. Specifically, it predicts that the effectiveness of hedonic and utilitarian premiums will vary as a function of the product-premium fit, being utilitarian/hedonic premiums more effective when there is a high/low product-premium fit. These proposed effects are tested and confirmed in an experimental study. It conducts a full design experiment to validate all the hypotheses. The results obtained have significant theoretical and practical implications on the use of premiums to promote products.

## 2. Literature review and hypothesis

The relevance of product-premium fit in the effectiveness of premium promotions is well grounded on the theoretical postulates of Categorization Theory and Cognitive Consistency (Festinger, 1957; Barsalou, 1985; Loken and Ward, 1990). According to them, people favor consistent attitudes, beliefs and behaviors because, otherwise, they will experience cognitive dissonance, which causes unpleasant and psychological discomfort. Extending this basic idea of consumers' strong preferences for congruent combinations of elements to premium promotions literature implies that consumers favor combinations of premiums and products that are functional compatible to satisfy some particular and common need (Smith and Park, 1992; d'Astous and Landreville, 2003; DelVecchio and Smith, 2005).

Recent studies has called attention to the hedonic and utilitarian nature of premiums as another characteristic that may determine their effectiveness (Zheng and Kivetz, 2009; Palazon and Delgado-Ballester, 2010). They demonstrate that, although a choice task generally favors the utilitarian option because it is more easy to justify, in a gift-giving context, as the one exemplified by a premium-based promotional offer, people enjoy receiving hedonic goods as gifts. Therefore, premium promotions constitute an external justification that helps consumers to choose hedonic items. Being so, premiums not only seem to be more effective when they fit with the product, their effectiveness may also be enhanced by their hedonic nature.

These apparently contradictory findings are reconciled in this work, where we proposed that the effectiveness of hedonic and utilitarian premiums depends on the level of product-premium fit. Premiums can vary in their level of functional or usage fit with the promoted product and in their utilitarian or hedonic values associated. In this sense, we propose that utilitarian premium

will be more persuasive than hedonic ones at a high product-premium fit. In other words, the premium and the product base may be high/low congruent in their functional or practical uses while at the same time the premium may lead to different utilitarian or hedonic values. The Compatibility Principle (Tversky, Sattath and Slovic, 1988) provides a reasonable theoretical explanation for this assumption. According to it, the weight of any input component is enhanced by its compatibility with the output. People attribute more weight to the dimension of an object (say, its utilitarian or hedonic values) when it is compatible with or similar to the goal (say, a functional/practical usage) because they can be more easily and confidently mapped with the output considered. Based on this reasoning, when a hedonic premium and a utilitarian one are both functionally congruent with the promoted product, the utilitarian premium will be more salient and preferred because of its relative instrumental and practical nature. Consumers focus on the similarity between the utilitarian premium and the function it may perform with the focal product. That is, goal oriented consumption is perceived as more logical and compatible with the functional fit existing between the product and the premium.

On the other side, we proposed that hedonic premiums will be more effective at a low product-premium fit. In these contexts, the product and the premium are not functionally compatible because they are not related in their use or consumption. As a consequence, the utilitarian aspects do not dominate the decision process. As far as there is no utilitarian congruency between the product and the premium, other consumption goals may be enhanced. As the promotional context facilitates justification, the sense of guilt associated to the consumption of hedonic items is mitigated and, according to the justification-based theory of Okada (2005), hedonic options may be more preferred. People enjoy receiving hedonic goods as premiums because of those experiential aspects, such as satisfaction and enjoyment, which can be derived from this experience (Larsen and Watson, 2001).

In sum, we proposed an interaction effect between the type of premium (hedonic vs. utilitarian) and the perceived fit between the product and the premium (high vs. low fit). Thus, it is reasonable to assume that consumers will show a higher liking and purchase intention for a hedonic premium in the low product-premium fit condition, which may lead consumers to actively spread positive word-of-mouth about it. However, we expect the contrary occurs when there is a high product-premium fit. Therefore, we hypothesized that:

**H1.** Consumers' liking for the hedonic premium will be higher than for the utilitarian one when the product-premium fit is high compared to a low product-premium fit.

**H2.** Consumers' purchase intention will be higher for the hedonic premium than for the utilitarian one when the product-premium fit is high compared to a low product-premium fit.

**H3.** Consumers' intention to spread positive word-of-mouth will be higher for the hedonic premium than for the utilitarian one when the product-premium fit is high compared to a low product-premium fit.

### 3. Methodology

The first step was selecting the focal product to use in the experiment. The focal product/service selected was joining to a gym or health club during a semester. It was a service where a huge range of high-fit/low-fit premiums and hedonic/utilitarian ones could be offered. In addition, it is very demanded by young people as the ones who participated in the study. We pre-selected eight premiums to be offered if you join as membership of the club. These premiums were: a 4 GB usb flash driver, a sport bag, a sport t-shirt, an online English course for 1 month, a 30' professional massage, a MP4, a spa session, and a pair of tickets to a pop music concert organized by a radio station.

A pilot study was conducted to select two hedonic premiums with high and low-fit with the focal service and two utilitarian ones with high and low-fit (n= 27 participants). The description of the eight premiums was shown to the participants. They were asked to analyze their hedonic/utilitarian nature, attractiveness, and perceived product-premium fit.

Based on the results obtained (see Table 2) the following premiums were chosen: a 4 GB usb flash driver (utilitarian/low-fit), a sport bag (utilitarian/high-fit), a pair of tickets to a pop music concert organized by a radio station (hedonic/low-fit), and a 30' professional massage (hedonic/high-fit). They differ in their hedonic/utilitarian nature and in the level of fit with the focal service (gym), but do not differ in their level of attractiveness.

**Table 2. Results of pretests**

High fit condition			
	Hedonic rating	Attractiveness <sup>1</sup>	Fit
P1: 4 GB usb flash driver	1.96	4.71	2.12
P2: Sport bag	1.77	4.81	6.00
P3: Sport t-shirt	2.08	3.81	5.83
P4: Online English course	3.38	5.15	1.78
P5: 30' professional massage	5.11	5.38	5.43
P6: Mp4	5.96	6.11	4.42
P7: Spa session	6.08	6.31	5.32
P8: Tickets music concert	6.88	5.05	2.56

<sup>1</sup>No significant differences between the premiums selected. All t-test comparison > 0.10

#### *Design, procedure and measures*

We followed a 2 (high-fit, low-fit) x 2 (hedonic, utilitarian) between-subjects design. A total of 225 undergraduate students (41.8 % males, 58.2 % females) participated in it for partial course credit.

In small sessions, subjects were informed that a gym was offering a premium if you join to it during the next semester. Subjects were given a description of the promotional offer. After reading the offer, they completed the response booklet with the questions concerned with the dependent variables and the manipulations check measures. Participants indicated how much they liked the premium along a scale from 1 (not at all) and 7 (very much) (Naylor et al., 2006). Consumers' purchase intention was measured using Juster's Scale, which is a true probability scale (Uncles and Lee, 2006). The intention to spread positive word-of-mouth about the promotional offer was measured using two items on a seven-point scale (1= Disagree strongly, 7= Agree strongly) adapted from Choi and Kim (2007). Regarding the manipulation check measures, to check for premium nature participants were asked to characterize each premium as primarily a functional gift or an entertainment/enjoyable gift along a scale from 1 (Primarily for functional use) to 7 (Primarily for entertainment use) (Kempf, 1999). Premium attractiveness was measured with two items on a seven-point scale anchored by disagree strongly and agree strongly (D'Astous and Landreville, 2003). Perceived product-premium fit was assessed using three items on a 7-point scale, anchored by "Disagree Strongly" and "Agree Strongly", based on d'Astous and Landreville (2003).

## **4. Results**

As expected, the sport bag and the 30' professional massage were perceived with a high fit with the focal service as they scored more than 4 on the product-premium fit scale ( $X_{\text{sport bag}} = 5.60$ ,  $X_{\text{massage}} = 4.23$ ). By contrast, the usb flash driver and the tickets for a music concert were perceived with a low fit with the focal service as they scored less than 4 ( $X_{\text{usb}} = 1.92$ ,  $X_{\text{tickets}} = 2.57$ ). The level of fit in the low condition is significantly different from the level of fit in the high condition ( $F_{1,224} = 206.064$ ,  $p = 0.000$ ). Similarly, the sport bag and the usb flash driver were perceived as utilitarian premiums ( $X_{\text{sport bag}} = 2.14$ ,  $X_{\text{usb}} = 1.76$ ), and the 30' professional massage and the tickets for a music concert were perceived as hedonic ones ( $X_{\text{massage}} = 4.60$ ,  $X_{\text{tickets}} = 5.80$ ). There are significant differences in the premium nature between the sport bag and the massage ( $F_{1,117} = 64.284$ ,  $p = 0.000$ ), and the usb and the tickets ( $F_{1,117} = 228.570$ ,  $p = 0.000$ ).

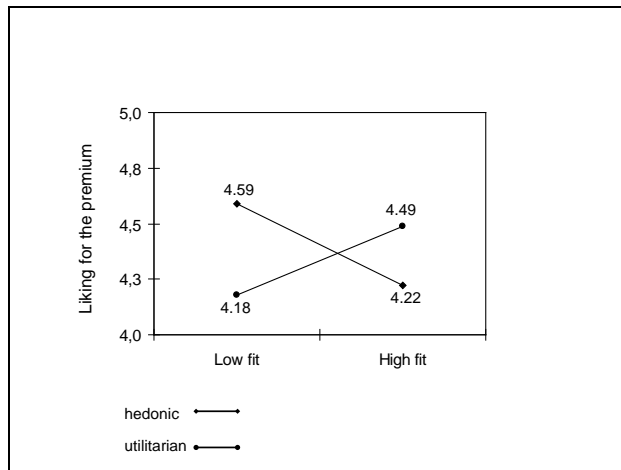
Manipulation check showed that the four premiums have a similar level of attractiveness ( $X_{\text{sport bag}} = 3.81$ ,  $X_{\text{massage}} = 3.67$ ,  $X_{\text{usb}} = 3.61$ ,  $X_{\text{tickets}} = 3.98$ ) and there are not significant differences

between them ( $F_{3,221} = 0.892$ ,  $p=0.446$ , Scheffé test  $> 0.10$ ). We also controlled the promotional benefit level offered by each premium ( $X_{\text{sport bag}} = 3.72$ ,  $X_{\text{massage}} = 3.33$ ,  $X_{\text{usb}} = 3.18$ ,  $X_{\text{tickets}} = 3.84$ ) and no significant differences were found ( $F_{3,221} = 2.697$ ,  $p=0.047$ , Scheffé test  $> 0.10$ ). Finally, the promotional scenario was perceived as believable (overall mean = 4.68).

To test the hypotheses, an ANOVA was conducted for each dependent variable, focusing on the interaction between level of fit and premium nature.

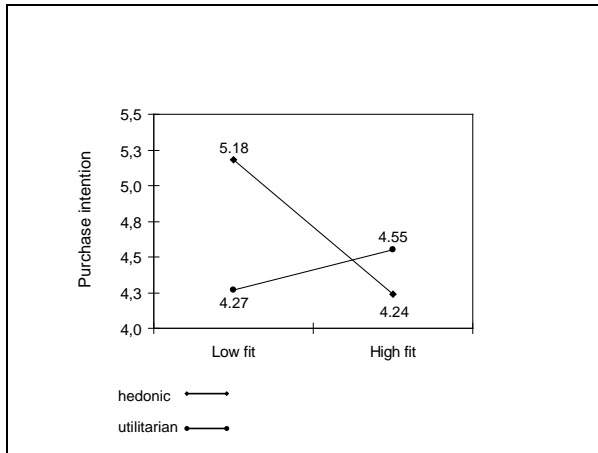
The ANOVA including consumers' liking for the premium as dependent variable indicated a marginally significant interaction effect between the two experimental factors ( $F_{1,224} = 3.237$ ,  $p=0.073$ ). Consistent with the predictions of H1, there are differences in consumers' liking for hedonic and utilitarian premiums depending on the perceived fit between the product and the premium. In the low-fit condition, the tickets for the concert (hedonic premium) are more liked than the usb (utilitarian premium), while in the high-fit condition the sport bag (utilitarian premium) is more liked than the professional massage (hedonic premium) (see Figure 1). However, the simple effects are not significant. The main effects of level of fit and premium nature are not significant.

**Figure 1. Interaction plot of level of fit and nature of the premium for liking for the premium**



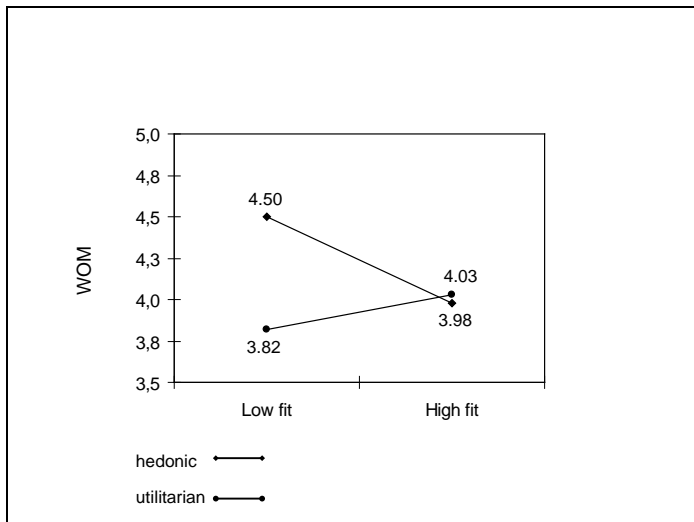
Regarding consumers' purchase intention, the ANOVA shows that the interaction effect between the level of fit and the nature of the premium was significant ( $F_{1,224} = 3.980$ ,  $p=0.047$ ). Therefore, H2 is supported (see Figure 2). When there is a low product-premium fit, the results reveal that the purchase intention is higher for the tickets for the concert (hedonic) than for the usb flash driver (utilitarian) ( $X_{\text{tickets}} = 5.18$ ;  $X_{\text{usb}} = 4.27$ ,  $F_{1,106} = 4.506$ ,  $p=0.036$ ). The reverse occurs when there is a low product-premium fit although the simple effect is not significant. Again, the main effects are not significant.

**Figure 2. Interaction plot of level of fit and nature of the premium for purchase intention**



Finally, the ANOVA including consumers' intention to spread positive word-of-mouth about the premium as dependent variable indicated a significant interaction effect between the two experimental factors ( $F_{1,224} = 4.786$ ,  $p = 0.030$ ). Therefore, H3 is supported. Thus, when there is a low-fit the intention to spread a positive word of mouth about the premium is higher for the tickets (hedonic premium) than for the usb flash driver (utilitarian premium) ( $X_{\text{tickets}} = 4.50$ ;  $X_{\text{usb}} = 3.82$ ,  $F_{1,106} = 8.700$ ,  $p = 0.004$ ), while when there is a high-fit there are not significant differences in that intention between the two premiums (see Figure 3). The main effect of the nature of the premium was marginally significant, suggesting that consumers spread a higher positive word-of-mouth for hedonic premiums than for utilitarian ones.

**Figure 3. Interaction plot of level of fit and nature of the premium for WOM**



## 5. Conclusions

Given the increasing use of premiums as a promotional tool, understanding consumers' responses to premium-based promotional offers remains a critical issue. The current literature has ignored the hedonic/utilitarian nature of the premium and the conditions under which the nature of the premium is more effective. In this research an experimental study was developed to analyze consumers' reactions to a specific premium-promotion combination following a between subject design. In particular we focus on the effects on consumers' liking for the premium, purchase intention and intention to spread positive word-of-mouth. The results obtained show that consumers' liking, purchase intention and word-of-mouth is higher for hedonic premiums when there is a low product-premium fit. However, we did not find similar consumers' responses at high product-premium fit. In other words, the utilitarian premium does

not generate a higher liking, purchase intention and word-of-mouth in a high product-premium fit context.

From a managerial perspective, one of the basic decisions confronting a manager, when implementing a premium-promotion, is what characteristics the premium should accomplish to improve its effectiveness. Our findings are of practical value to design effective premium promotions because they show that the decision about offering a premium that is high/low congruent with the focal product/service is not a decision that can be made without taking into account the nature of the premium. By combining both characteristics in the way that our experimental studies suggest the promotional effectiveness of the premium-based promotional offer is improved.

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