

HYBRID OF CERTAIN AND UNCERTAIN INCENTIVES: THE REINFORCING-UNCERTAINTY EFFECT REVISITED

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ABSTRACT

Generally, there are two types of incentives provided by firms for their customers when they conduct a sales-promotion: one is certain incentives, with which customers gain certain amount of utility (for example, if you buy five, you can get two more for free), whereas the other is uncertain incentives, with which customers gain a utility with a certain probability (for example, if you buy five, you may get two with a 50% possibility). Most researchers have claimed that certain incentives are preferred to uncertain incentives because, psychologically, uncertain incentives are associated with risks, and typical consumers are risk averse about gains. Recently, it has been claimed that uncertain incentives can be preferred though their expected utility is less than that of certain incentives. It is because uncertain incentives provide customers with not only the outcome acquisition utility, but also the uncertainty resolution utility. However, in the real world, there is another kind of sales-promotions with a hybrid incentive that integrates certain and uncertain incentives (for example, if you buy five, you can get one more for free and, in addition you may get another one with a 50% possibility). Is the hybrid incentive more effective than classical alternatives? Previous research has compared certain incentives to uncertain incentives and no research has considered hybrid incentives. This research compared all of these three kinds of incentives. The results showed that hybrid incentives are most preferred both in case of initial and repeat purchase if and only if uncertainty is resolved immediately after the customers react the sales promotion.

Keywords: sales-promotion, certain and uncertain incentives, initial and repeat purchase

References are available upon request.

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KSMS Korean Scholar of Marketing Science 2019 発表版
“The Hybrid of Certain and Uncertain Incentives:
The Reinforcing-Uncertainty Effect Revisited”