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SALES INCENTIVE DECISIONS WITHIN AN ATTRIBUTION THEORY FRAMEWORK

by

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ABSTRACT

Sales incentives are frequently used by marketers to launch new products or boost the sale of existing products. Two of the major decisions concerning the use of sales incentive are what size and what form of incentive to offer. While the objective is to influence overt purchasing behavior, the underlying processes are of interest in explaining and predicting the magnitude of response. Attribution theory is used to provide a framework for these decisions and in understanding the process that leads to overt behavior.

SALES INCENTIVE DECISIONS WITHIN AN ATTRIBUTION THEORY FRAMEWORK

Marketers from time to time offer a variety of sales incentives in their efforts to gain and maintain customers. In the United States, packaged goods, durables, services and a variety of other products are regularly promoted with the help of incentives.[1] In Britain, use of multipacks have registered a large increase in 1977 over 1976.[2] In India, laundry detergents are sold along with offers of plastic buckets and baskets and packaged tea with offers of bath soap.

The use of sales incentive is not limited to any particular kind of goods nor any specific national market. Reduced price offers, self-liquidating premiums, free samples, multi-packs, coupons, give-aways, contests, special offers are various forms of incentives used by marketers in many countries to promote sales of their products to household and institutional buyers as well as to trade channels.

Incentives : Definition & Objectives

An incentive may be defined as an object of financial value offered to an individual, group or institution in order to obtain some overt behavioural change.[3] Generally, incentives are offers that temporarily enhance the financial value of an object. If an incentive is offered continuously, it should be viewed as an integral component of the product itself and it would not be proper to call such an offer an incentive.

While incentives are aimed at influencing behaviour of trade members and salesmen, an important target of sales incentive effort is the customer. The objective generally is to enhance the customer's purchase motivation. Ideally, the intrinsic motivation to buy and use a product should be so high that no additional incentives are required. However, this ideal state will not always exist. For example, in the adoption of contraceptive methods, incentives may have to be given to enhance the level of intrinsic motivation.[4] Frequently, however, motivation towards a product class (e.g. shampoo, soft drinks) will be quite strong but not sufficiently directed towards a particular brand (e.g. Agree, Pepsi). It therefore becomes necessary to direct the customers' generic motivation towards a specific brand through the use of sales incentives.

The specific objectives of sales incentives include creation of product trial, increased or more varied usage, repeat purchase, increaseed frequency of purchase, larger unit purchase and creation of brand or source loyalty.[5] Many new products or brands, for example, are often introduced with a limited low price offer to generate trial from existing users of competitive products or non-users. The expectation is that the trial will lead to satisfactory product experience and repeat purchase will take place at a higher price. Established brands also use various incentives to boost their sales.

Decisions within An Attribution Theory Framework

Attribution theory[6] can be used as a framework for analysing sales incentive decisions. The theory proposes a process of cause-and-effect determination which is used by individuals to analyze and modify one's own behaviour. According to the theory, an individual is assumed to examine his/her own behaviour in an attempt to understand why the behaviour took place. If the major causes for behaviour are found to lie within the individual, then it is inferred that the behaviour took place because of a favourable predisposition towards it. However, if the motivations are judged to lie outside the individual (in the situation, the environment, etc.), then these external causes are considered to be the determinants of the behaviour. In the latter case, one would not expect the behaviour to be repeated in the absence of these external motivating factors.

This theoretical framework is useful not only for communication[7] but also for sales incentive decisions.[8] Incentives are a form of external motivators for purchasing behaviour. If an incentive offer leads to purchase behaviour but it perceptually dominates as the cause for behaviour, then it is unlikely that repeat behaviour will take place in the absence of incentives. However, if it is not perceived as the primary determinant of behaviour, then attribution of cause to internal motivations is likely which will facilitate repeat behaviour in the absence of incentives. It is therefore useful to analyze sales incentive decisions within an attribution theory framework. Using the framework, it may be possible to design incentive offers such that they lead to the achievement of program objectives.

<u>Sales Incentive Decisions</u>

The marketing or sales promotions manager has to make a variety of decisions once it has been decided to offer sales incentives. For instance,

* What should be the value of the sales incentive?
* To whom should it be offered?
* How should it be communicated, delivered?
* How long should it be offered?
* What form of incentive to offer?

These decisions are takèn in a managerial setting which is influenced by competitive practices and environmental pressures.

While the use of incentives is primarily directed towards an immediate behavioral response (e.g. trial, increased stock displays, larger purchases, etc.), longer term consequences are also of considerable importance. It raises questions such as:

* Did the response take place because of incentives alone?

* Will the response be repeated in the absence of incentives?

* Can satisfaction and motivation be sustained without sales incentives in the face of competitive promotional programs?

* Will the use of sales incentives lead to increased promotional costs in the future?

These are some of the fundamental questions which arise with the use of incentive schemes. It is possible to conceptualize responses to these questions within the attribution theory framework.

Perhaps the two more important managerial decisions concern the <u>size</u> and <u>form</u> of sales incentives. The size of an incentive directly affects the financial obligation and therefore the returns expected from it. A 15¢ price-off scheme obviously entails a lower obligation than a 25¢ price-off scheme. However, the size of an offer also affects the value perceived by the target audience which in turn affects the magnitude of response. A 25¢ price-off scheme is likely to be more attractive than a 15¢ price-off one, <u>ceteries paribus</u>.

Given a decision on the particular value of an incentive, another decision must be made with respect to its form. The form of a sales incentive affects perceived value but in a more qualitative way. There are various alternative forms which may be scaled in terms of relatedness to the product being promoted. For example, price-offs, multi-packs are incentives in the form of the product itself; use of a complementary product as a gift or self-liquidating premium (e.g. plastic bucket with laundry detergent; shampoo with creme rinse, etc.) will be a product-related incentive form whereas a totally distinct product will constitute an unrelated incentive. Recently, Dr Pepper offered a $2 refund towards the next purchase of beef (product-unrelated) while Atra Razor offered $2 rebate on proof of purchase (product-related).[9]

The value and form of an incentive are important competitive tools in the battle for brand shares. The implications of attribution theory for these two decision areas are therefore particularly interesting.

Incentive size

The response between incentive size and response levels is shown in Figure 1. A positive relationship is expected between immediate response and incentive size while a negative relationship is likely between future response. In other words, a larger incentive is likely to create stronger immediate impact but is unlikely to maintain that level of response in the future. On the other hand, a smaller incentive is likely to generate a lower level of immediate response but is more likely to maintain it in the future. Thus, programs that are interested in <u>both</u> short and longer term responses will benefit from a moderate-sized incentive.

These relationships are derived from an attribution explanation. As per the theory, it is predicted that a behavioural response to a sales incentive offer will be subjectively analyzed by the individual and causes determined. Larger the incentive size, greater its attractiveness and stronger the immediate response. This leads to the positive relationship between incentive size and immediate response. However, a larger incentive will also be more visible as an external motivator and therefore stronger the attribution that the behaviour took place because of the incentive alone. When such strong attributions are made to external causes, personal dispositions such as satisfying experience, preference, attitude are dampened. Repeat behaviour in the absence of such incentive is therefore unlikely in the future. Hence, a negative relationship between incentive size and future response. There is some empirical support for this relationship although there is no direct test of the underlying attribution mechanism.[10]

In terms of practical examples, this implies that a 25¢ price-off scheme will be more successive in the short term and less effective in the long run than a 15¢ price-off scheme; also implies that while a 5¢ or 10¢ price-off scheme may be even more effective than a 15¢ price-off scheme in the long run, the overall effects, considering both short and long terms, will be greater for 15¢ price-off scheme.

Incentive Form

Since the value of a particular incentive may be offered in various forms, the proposed relationship between incentive form and response (as shown in Figure 2) may be useful for decision making. A negative relationship is expected between immediate response and product form but a positive relationship is assumed between form and future response. In this case, incentive form is analyzed only in terms of its product relatedness. In other words, it is expected that as the form of incentive becomes different and distinct from the product, it leads to higher immediate response but lower future response. Objectives that include long and short-term responses should not select incentive forms from the extreme ends of the product-relatedness scale.

These relationships may also be deduced from attribution theory. It is postulated that as the degree of product-relatedness decreases (i.e. incentive becomes distinct from the product promoted), it increases in attractiveness which creates immediate response. So for low product-related incentives, immediate response is higher and a negative relationship is created between immediate response and product relatedness. On the other hand, as the incentive increases in product-relatedness, it facilitates causal attribution to internal motivations which favourably affect future response. That is, an incentive that is high in product-relatedness while obtaining a lower initial response, leads to more favourable internal dispositions. Therefore, a positive relationship is created between future response and product-related incentives.

The primary assumption is that as the incentive decreases in product-relatedness, it increases in distinctiveness which makes it difficult to disassociate the incentive from the behaviour. Therefore, attribution to the incentive will be stronger for the product-unrelated incentive and weaker for the product-related incentive. This will affect repetition of future behaviour in the absence of incentives. The form of incentive will thus affect respondents' sensitivity to causal determinants. There is yet no empirical test of the relationships posited between incentive form and response behaviour. This relationship may be demonstrated with a practical example. Given that Dr Pepper had decided to offer a $2 rebate, it could be offered on future purchases of Dr Pepper (product-form incentive), or on future purchases of beef (product-unrelated incentive). If the derivations from attribution theory are valid, the implications would be that over the longer term, the first form of incentive would be more successful than the second.

Managerial Implications

Relevance of these relationships to managerial decisions is quite high. The implications are particularly relevant to sales promotion decisions for new introductions. New entries in fields with well-entrenched brands have a particular problem of generating trial among sufficient number of users. Incentives are likely to be offered and large incentives may be chosen in order to attract users of competitive brands. While this would generate high initial response, this may not be sustained. According to attribution theory, larger the incentive, lower the probability of attribution being made to internal dispositions and hence, lower the likelihood of repeat purchase occurring in the absence of incentives.

A similar type of reasoning will affect responses to incentive forms. If the new entry is promoted with another product which is different from the promoted brand (product-unrelated incentive), then the attractiveness of the incentive will create initial response but fail to sustain it in the absence of the incentive. For longer term responses, it would thus be preferable to offer incentives that are as closely related to the product as possible.

For products that are not repetitively purchased such as consumer durables, long term responses are of little consequence. Therefore, larger and product-unrelated incentives are likely to generate higher immediate responses and are therefore to be preferred for sales promotion decisions.

Conclusion

It has been shown that incentive decisions can be analyzed within an attribution theory framework. Two major incentive decisions - how large and what form - have been considered. It has been postulated that a moderately sized incentive will produce better overall response when both long and short term effects are considered. This supports common sense observations that "too large an incentive must be selling a bad product".

Similarly, incentive forms (represented in terms of product-relatedness) will differently affect response behaviour. It is hypothesized that a highly product-related incentive will elicit lower immediate response but perform better over a longer period of time. The opposite is likely to be true with product-unrelated incentives. Again, feeling that an attractive premium or gift (which is unrelated) will be bought for the gift rather than the product is popular support for this relationship. Attribution theory, however, is used to justify the relationships expected between response and incentives.

FIGURE 1

RESPONSES TO INCENTIVE SIZE

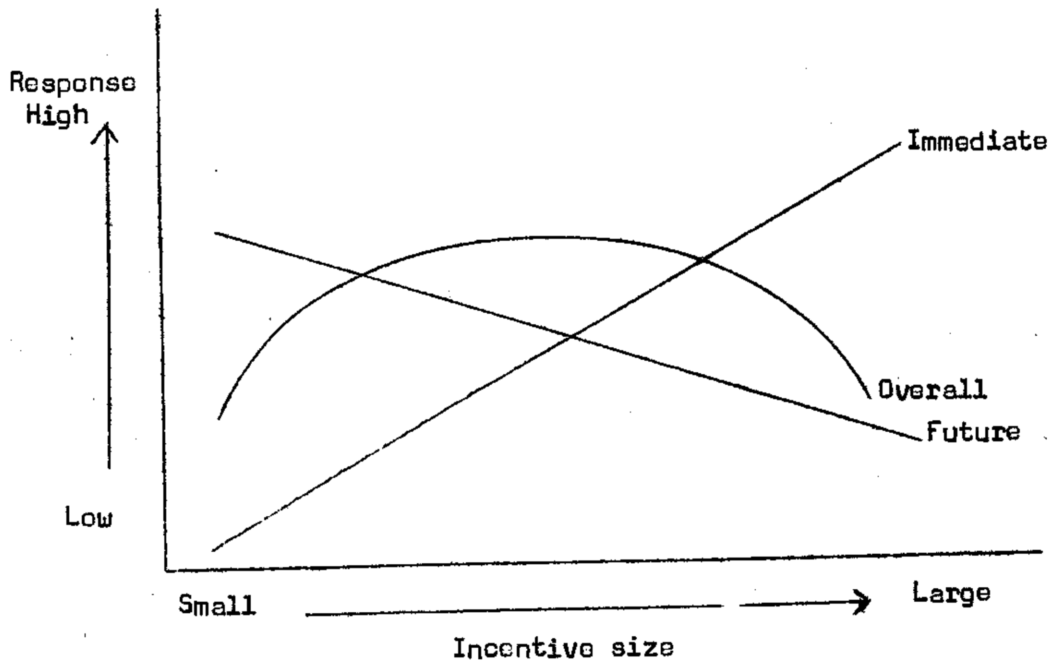
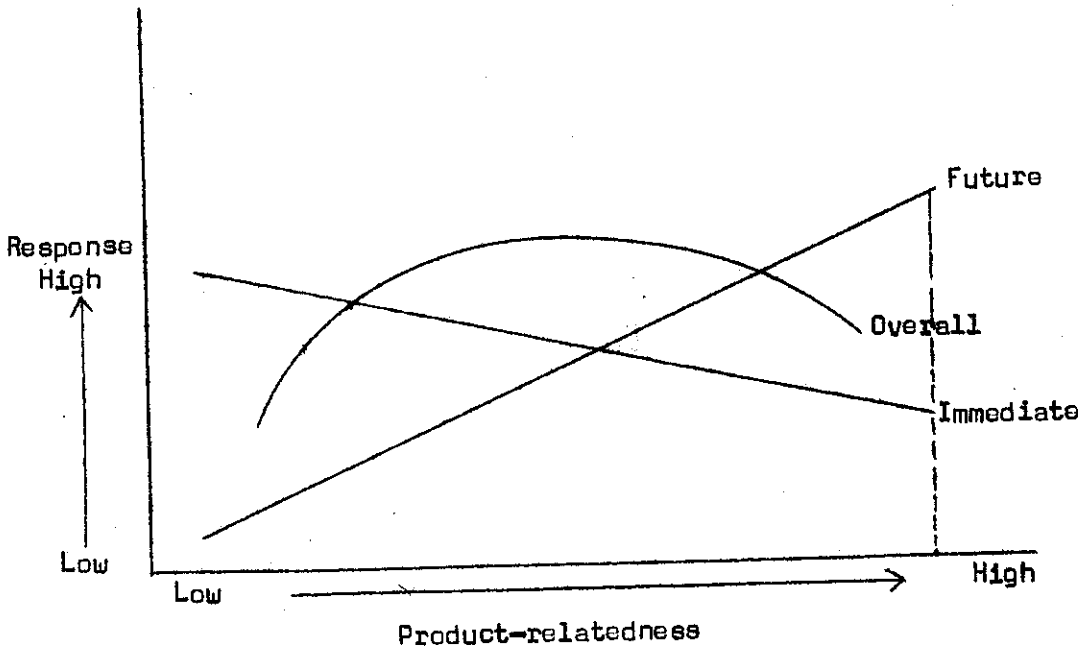


FIGURE 2

RESPONSES TO INCENTIVE FORM



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    See also Scott, footnote 8.

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