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# Free Gift with Purchase: Promoting or Discounting the Brand?

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Two experiments examine the process by which free gift promotions serve as a source of information about the underlying value of the product offered as a free gift. The value-discounting hypothesis argues that by virtue of being offered as a free gift, products will be valued less as evinced by lower purchase intentions and a lower price that consumers are willing to pay for them. Conditions that inhibit the value-discounting effect include the (a) presence of alternate price information to make judgments about the value of the gift, and (b) contextual information about the value of the promoted brand.

A rich literature in sales promotions has shown that short-term sales are positively affected by offering promotions (for a review, see Blattberg & Neslin, 1990). However, the economic model of consumer promotions does not explicitly account for complementary routes through which promotions can affect consumer behavior. The notion that consumer promotions are informative and affect sales through more than offering a monetary incentive to purchase is not new (Inman, McAlister, & Hoyer, 1990; Inman, Peter, & Raghubir, 1997; Raghubir, 1998), but it has never been applied to the context of free gift promotions. This article explores the information content of free gift offers, focusing on inferences drawn about the free gift, rather than the promoted product.

"Free gift with purchase" offers appear to be inundating the marketplace. Whether they are in the cosmetics industry, in duty-free catalogs, or in your everyday supermarket shelves, marketers appear to be enticing consumers to buy their product through the offer of a free gift with purchase. The offers vary: Some explicitly mention the value of the offer, whereas others do not. Although research in price promotions is useful to understand how such offers affect current and future sales of the *promoted brand* offering the free gift, an unanswered question is how they affect future sales of the brand *being offered* as a free gift.

In this article, we examine the manner in which consumers' process free gift with purchase offers. Although the cosmetics industry is by far the largest user of direct gift with purchase offers, with over 60% of department store makeup and treatment sales and 40% of prestige fragrance sales associated with offers such as these (Sexton, 1987), such offers are gaining ground in other industries as well. The efficacy of free gifts is, however, in doubt, with detractors claiming that giveaways take away from future sales, and defenders arguing that they increase them (Sexton, 1987). Companies also differ markedly in their beliefs about the efficacy of such promotions: whereas over 50% of sales at Esteè Lauder are associated with free gift with purchase promotions (Trager, 1984), Chanel does not offer any (Matthews 1995), and Aramis is moving from gifts to sampling, with over a quarter of its marketing budget devoted to free samples of newly introduced products (Nayyar, 1993).

We argue that although a free product enhances the transactional value of the purchase, it brings with it a mixed bag of inferences that consumers may draw on the basis of the offer. These inferences may be both about the product being offered as a gift and about the brand offering the freebie. Although a free offer may increase sales of the promoted product by increasing the value of the transaction, this article examines how it may affect stand-alone sales of the product offered as a free gift. Identifying the situations in which it does can help managers decide whether or not to use free offers to help sales and brand managers to decide whether they are willing to allow their product to be offered for free. Examining the moderating effect of manner of communication of the free offer—specifically, the value of the free gift, suggests how managers should communicate a free gift offer.

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Two experiments examine the process by which free gift promotions serve as a source of information about the underlying value of the free gift. We propose the value-discounting hypothesis: By virtue of being offered as a free gift, products will be valued less as evinced by lower purchase intentions and a lower price that consumers are willing to pay for them. We also propose that the value-discounting effect will be attenuated when (a) alternate price information is present to make judgments about the value of the gift, and (b) the value of the promoted brand is contextually available.

Testing the strength of the value-discounting effect, in Study 1, a strong brand, "Cross" pens, is used as the free gift. Results show that people are willing to pay less for the pen when it has been offered for free with a cheaper brand as compared to a more expensive one. This result underlines the importance of brand managers carefully choosing partners in a promotion, such that their brand equity is not eroded. Study 2 extends the examination to assess whether (a) the effect seen for a single product offered as a free gift can percolate to the entire product category, and (b) the value-discounting inference is made at the time of encoding information. In a strong and subtle test of the value-discounting hypothesis, we manipulated the order of display of a free gift offer of pearls along with purchase of a cognac before or after another offer for an unrelated pearl product. The actual information provided is constant across conditions. Despite information equivalence in the two conditions, purchase intentions of a branded pearl product that belongs to the same product category (pearls) as the free gift are adversely affected when the free gift offer precedes the unrelated branded pearl offer.

Across the two studies, we find evidence for value discounting of a free gift: a product that has been offered as a free gift may later find it difficult to be a stand alone product—consumers may be less willing to purchase it or willing to pay less for it. The value-discounting effect is moderated by the type of brand offering the free gift and by the presence of value information about the free gift—both alternate sources of information that consumers can use to make inferences about the value of the gift. When the price of the promoting product is known, but the value of the free gift offer is ambiguous, people appear to use an expected discount rate to impute the value of the gift. This leads to higher priced promoting brands being perceived as offering gifts of higher value.

The following hypotheses are developed and are followed by a description of the two studies.

## THE VALUE-DISCOUNTING HYPOTHESIS

Recent models of the manner in which price promotions work have suggested that consumers make inferences based on promotional offers, particularly when they do not have access to alternate sources of information to make judgments that serve as inputs into their purchase decisions. Specifically, prior work has shown that to the extent a promotion is used as a source of information to infer the quality of a product (e.g., Raghubir & Corfman, 1999), its price (Inman et al., 1990; Raghubir, 1998), or consumer demand (Inman et al., 1997), the overall positive economic effect of offering a promotion on purchase intentions may be undercut—being less positive than it would have been in the absence of unfavorable inferences. At the limit, the overall effect of offering a price promotion on sales may be null or negative. Investigating "purchase with purchase" promotions, Simonson, Carmon, and O'Curry (1994) found that such promotions decreased the probability of a brand being chosen. For example, when Pillsbury cake mix buyers were allowed the option of purchasing a Doughboy Collector's plate for $6.19, as compared to not being offered such a promotion, they were less likely to purchase the item if they did not want the plate. This is despite the fact that the second purchase was a cost-free option that did not have to be used. Simonson et al. proposed that this reduction was because consumers who were not interested in purchasing the additional product used this as a reason to justify not availing of the promotion.

We propose an additional route through which a similar effect could manifest: via inferences regarding the value of the product being given away at a discounted price or, in our case, for free—the value-discounting hypothesis. Consumers believe that marketers are in the market to make a profit. However, promotional offers lead to the manufacturer sharing profit margins with consumers. Consumers can resolve this apparent inconsistency in multiple ways. One way is to attribute the promotional offer to competitive forces, making it relatively uninformative about the traits of the brand (Raghubir & Corfman, 1999). When external attributions are less likely, then promotional offers may become informative about aspects of the brand. The fact that a manufacturer is providing a free gift along with purchase of their product, could either imply that the product itself was overpriced, or that the free gift was of low value—that is, free gift promotions could lead to inferences about the cost and margin structure of the promoted product or the free gift or both. This is because, whereas consumers may believe that a manufacturer is offering a promotion to increase sales, they also realize that the promotion will erode profit margins. If it does, then they would expect a manufacturer to offer a promotion up to the point that it remains profitable for them. Consumers may, therefore, reason that if a product is available as a gift with another product, it is because the promoted product has a high margin that covers the cost of the free gift, because the gift is low cost, or both.

If consumers make the inference that the cost of the free gift is low, this should lower the price they are willing to pay for it when it is offered as a stand-alone product. Thus, if consumers make this type of inference, termed the *value-discounting hypothesis,* a free gift offer should lead consumers to lower their reservation prices for a product offered as a free gift as compared to when it has not been offered as a free gift.

## MODERATORS OF THE VALUE-DISCOUNTING HYPOTHESIS

In a model of how consumers infer product price based on the value of the coupon offered, Raghubir (1998) suggested that consumers' have a broad range of expectations about discount rates, (e.g., 20%–40%). When they do not know the price of the product on which a coupon promotions is being offered, they compute this price based on their expectation of the average discount rate and the value of the coupon. Mirroring this argument in the context of free gifts, if consumers are unaware of the value of the promotional offer, they can compute this value via the price of the product, given an expectation of discount rates in the industry. Thus, a free gift of ambiguous value should be perceived to be of higher value when it is offered by a higher priced brand as compared to a lower priced brand.

Further, the higher the price of the brand offering a free gift, the higher consumers should expect its margin to be. Given that higher margin brands can better afford to offer more costly gifts along with purchase to reward their consumers for purchase, the value inference about the free gift should be impeded. The same argument can be made through economic information theory. Recent evidence suggests that brands of higher value may have more to lose than those of lower value, and would be less likely to be associated with a cheap product (Rao, Lu, & Ruekert, 1999).

Based on the theory that a free gift is a source of information, it should be used to the extent alternate sources of information are unavailable to consumers. In support of this, Raghubir and Corfman (1999) showed that the inference of a price discount leading to perceptions of poor quality was moderated by the product category expertise of consumers—novices were more likely to make the unfavorable inference from the promotional offer. Although individual sources of information about product quality are one source of information that consumers can use to make judgments, other sources include the purchase preconditions required to avail of the free gift, and the contextual presence of value information of the promotional offer.

The presence of alternate information should attenuate the value-discounting effect as it provides an alternate source of information by which consumers can make price judgments. In other words, it allows consumers to anchor on the stated price of the free gift, even if the full claim of its value is not accepted (Blair & Landon, 1981). Prior literature has shown that the presence of contextually provided price information moderates the effect of promotional cues on price inferences. For example, Raghubir (1998) showed that when the price of a product was given along with the amount of the coupon promotion, the coupon was uninformative of product price and was not used to make price inferences. Thus, when price information about the free gift is absent, the value-discounting hypothesis should operate. However, if the price is present alongside the price of the promoted product, then consumers have access to multiple sources of information to compute a price for the free gift. When the value of the free gift is mentioned, even if consumers do not believe it is worth the amount advertised, they can use this value as an anchor for the price of the product. This is likely to inhibit the inference that the product being offered for free is of low value.

## STUDY 1

A strong test of the value-discounting hypothesis is to examine whether a well-known brand name may be prone to the value-discounting effect. In this study, we test the value-discounting effect by examining whether price perceptions of a well-known, high-priced brand, Cross pens, are affected by whether the pen is offered as a freebie by a more or less expensive brand.

### Method

*Participants.* Participants were 74 undergraduate students of the Introductory Marketing course at the Hong Kong University of Science and Technology who participated in this study for partial course credit.

*Design and procedure.* Participants were given an ad copied from a leading airlines duty-free catalog. The ad was an offer of a free gift with purchase of a bottle of alcohol. The design was 2 (brand name of free gift: unbranded/well known) × 2 (brand name of promoting product: less/more expensive), mixed design. The brand name of the free gift was manipulated by offering either an unbranded key chain or a Cross pen, and the brand name of the promoting product was manipulated via the free gift being offered by either Bombay Sapphire Gin or Royal Salute whiskey. Although the former sells for $16 in the duty-free catalog, the latter sells for $90. Both are well-known brand names in their respective product categories. Participants saw an ad where the whiskey offered the Cross pen and the gin offered the key chain, or the reverse—an ad where the whiskey offered the key chain and the gin offered the Cross pen.

Measures are described in the Results section.

### Results

*Manipulation checks.* Deal evaluations for the two offers were elicited on 7-point scales (1 = *not at all;* 7 = *a very good deal*) to assess the face validity that the Cross pen offer was perceived to be better than the key chain offer. As expected, gin was perceived to offer a better deal when it offered the Cross pen versus the key chain, *M*s = 4.06 vs. 2.21,

$F(1, 72) = 21.56$, $p < .001$. The same pattern was true for the whiskey, *M*s = 4.71 vs. 2.14, $F(1, 72) = 51.74$, $p < .001$.

*Price perceptions of the free gift.* All participants indicated the maximum price they would be willing to pay for a Cross pen, using an open-ended scale. As predicted by the value-discounting hypothesis, when the Cross pen had been offered by Royal Salute whiskey, reservation prices were one third higher ($M$ = \$28.78), as compared to when it had been offered by Bombay Salute gin, $M$ = \$21.24, $F(1, 63) = 3.69$, $p < .05$.

These results show that even when the free gift is a well known brand name, in and of itself, the price consumers are willing to pay for it is affected by the brand that offers it.

## STUDY 2

This study examines whether the price judgment about a specific product offered for free may also carry over to the product category in general. This should be particularly true if people do not have well-formed beliefs about the product category. We test whether offering a pearl bracelet for free with purchase of a bottle of cognac in a duty-free catalog affects the price people are willing to pay for a branded pearl product that appears later in the catalog (the target ad). We test that to the extent consumers have made an inference about the product being offered as a free gift, this should carry through to related products and affect their purchase intentions, *even if they have not been offered for free*. Thus, even controlling for the information available to consumers, the order of exposure to two different advertisements could affect the manner in which they are perceived, if the value-discounting inference is made at the time of encoding the free gift promotional offer. This is because, to the extent that an inference has been formed at the time of exposure to the free gift offer, this is likely to carry through while consumers process the pearls offer they are later exposed to.

Based on the value-discounting hypothesis, we expect that when consumers have been exposed to a free pearl bracelet gift offer, they are less likely to purchase pearls at full price. Based on the value-discounting hypothesis, if consumers draw the "pearls are cheap" inference, then they should be willing to pay less for branded pearls advertised in the target ad, when they have been exposed to the free pearl bracelet message as compared to when they have not. Further, if this inference occurs at the time of encoding the offer, then the order of exposure of promotional information should affect the price people are willing to pay. If the inference has been made at the time the target ad is seen, the effects should obtain. On the other hand, the effects would be weaker if the free gift ad was viewed and the value-discounting inference made *after* the target ad was viewed.

The purchase price of the brand should also directly affect inferences of the value of the free gift itself —the higher the price of the promoted product offering the free gift, the higher the reservation prices of pearls—both those offered as a free gift and those offered as a stand-alone product. Further, the value of the brand offering the free gift should moderate the effect of exposure to the free gift on judgments about the unrelated pearl necklace. However, when the price of the free gift is provided, consumers should be less likely to undergo these inferential processes, attenuating the value-discounting effect.

### Method

*Study participants.* Participants were 75 undergraduate students of the Introductory Marketing course at the Haas School of Business at University of California, Berkeley, who participated in this study for partial course credit.

*Design and procedure.* Participants were given a set of ads copied from a leading airlines duty-free catalog. This set included the target ad for a Majorica pearl necklace and bracelet, and the ad that served as a manipulation —a cognac ad offering a double-strand pearl bracelet as a free gift with purchase. Participants were asked to flip through the set of ads, as though they were flipping through a duty-free in-flight magazine, and then respond to dependent measures at the end.

The design was a between-subject 2 (order: free gift ad first/later) × 2 (brand: high price/low price) × 2 (price of free gift: present/absent) full factorial. The order of the ads manipulated whether consumers saw the ad for the Majorica pearls before forming an impression of pearls based on the free gift ad, versus without this. Brand name was manipulated by using two differently priced cognacs offering the free gift: 700 ml Napoleon Courvoisier (US \$52) and 700 ml Hennessy XO (US \$90). The third variable was manipulated by including a blurb "US Value \$32.50" next to the pearl offer in the cognac ad in the price present condition. This was missing in the price absent condition. The target ad was an ad for a Majorica convertible necklace/bracelet set, priced at \$149.

The key measures were reservation prices for the free gift bracelet and Majorica pearls, elicited using an open-ended measure; and purchase intentions for Majorica pearls elicited on a 7-point scale. These were followed by general questions about travel in airplanes, time spent reading in-flight magazines, and so on, designed to increase the credibility of the cover story.

### Results

Means are provided in Table 1. Analyses are presented by dependent measure.

*Judgments about the free pearl bracelet.* A 2 × 2 × 2 analysis of variance (ANOVA) on price perceptions yielded a main effect of brand name, $F(1, 60) = 4.69$, $p < .05$, such that consumers were willing to pay 50% more for the free

TABLE 1
Study 2 Results

| | *Value of Pearls Absent* | | *Value of Pearls: $32.50* | |
|---|---|---|---|---|
| *Means* | *Napoleon* | *Hennessy X.O.* | *Napoleon ($52)* | *Hennessy ($90)* |
| Purchase intention fo r Majorica pearls | | | | |
| Cognac ad first | 1.56 (*n = 9*) | 2.22 (*n = 9*) | 1.78 (*n = 9*) | 2.11 (*n = 9*) |
| Pearls ad first | 3.11 (*n = 9*) | 2.50 (*n = 10*) | 2.70 (*n = 10*) | 1.90 (*n = 10*) |
| Reservation price: Free gift of pearls | | | | |
| Cognac ad first | $12.17 | $26.86 | $25.78 | $31.89 |
| Pearls ad first | $20.00 | $42.50 | $23.00 | $25.30 |
| Reservation price: Majorica pearls | | | | |
| Cognac ad first | $34.29 | $81.86 | $38.56 | $63.33 |
| Pearls ad first | $34.29 | $73.50 | $40.30 | $40.22 |

pearl bracelet when they had seen it associated with the Hennessy XO cognac ($M$ = $32.03), as compared to the lower priced Napoleon Courvoisier ($M$ = $21.09). This replicates the results found with Cross pens in Study 1.

*Carryover effects to Majorica pearls.* A 2 × 2 × 2 ANOVA on the *reservation price* measure showed a main effect of brand, $F(1, 60) = 5.31$, $p < .05$, such that consumers were willing to pay a higher price for the Majorica pearls when the free gift of pearls was given by the more expensive Hennessy XO cognac ($M$ = $64.00), as compared to the relatively less expensive Napoleon Courvoisier ($M$ = $37.27). This is consistent with the model that consumers use brand costs to infer the value of the gift.

*Evidence that value discounting occurs at encoding.* A similar analysis on the purchase intentions measure showed a main effect of order, $F(1, 67) = 3.06$, $p < .05$, reflecting that intentions to purchase the Majorica pearls were higher in the condition when the cognac ad followed ($M$ = 2.54) rather than preceded the Majorica pearls offer ($M$ = 1.92). No other effect was significant at $p < .05$.

We found that people were willing to pay higher prices for both the freebie and for the branded pearl product when the gift had been offered by a higher priced brand. We also found that purchase intentions of Majorica pearls were unfavorably impacted when participants were first exposed to a cognac ad that offered a free pearl bracelet as a free gift with purchase, a strong yet subtle test of the value-discounting hypothesis. Surprisingly, the price of the freebie did not exert main or interaction effects. It is, however, premature to draw a conclusion from these null results given the relatively small sample size.

## GENERAL DISCUSSION

Studies 1 and 2 support the informational role of price promotions in the context of free gift offers. Results show that free gift with purchase promotions can lead to inferences about the value of the gift. Thus, (a) consumers were found to discount the value of the gift, (b) with these effects carrying over to the general product category to which the free gift belonged; (c) consumers behaved as though they imputed gift value using the price of the brand offering the gift, leading to (d) consumers attaching higher value to the same gift if it was given by a higher priced brand name.

This article adds to the growing body of evidence that price promotions are more than just money off—they are a source of information that consumers use to make judgments about products and their prices. This has been demonstrated in the context of free gift offers for the first time.

The article also sheds light on how consumers process free gift offers. As Simonson et al. (1994) found, the presence of a promotional offer could actually backfire and lead to reduced choice probabilities as compared to the absence of the promotional offer. They explained their findings in terms of the promotion providing a reason to disqualify the brand from a choice set. In this article, we show another effect—being offered as a free gift can cheapen the brand itself.

### Areas for Future Research

The value-discounting hypothesis offered in this article, argued that the apparent incongruity of a manufacturer giving away something for free can be resolved by devaluing what is given away. However, consumers have an alternate way to resolve this incongruity if (a) the free gift is part of the product line of the main promoted product and is a repeat purchase item, or (b) the price of the free gift is provided and is incongruently high. Instead of focusing on the manager's need to make a profitable transaction in the immediate term, consumers may think of the free gift offer as a trial-inducing device. In this case, the attribution for the promotion is not so much to increase the sales of the promoted product, but to increase future sales of the free gift item. Economists have proposed that price promotion offers may signal *high* quality (for a recent review, see Kirmani & Rao, 2000) as low-quality products cannot afford to subsidize trial. If this type of reasoning dominates, then offering a product for free should *increase* its purchase likelihood postdeal retraction. To examine the scenarios where this could occur is an area for future research.

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