

The windfall gain effect: Using a surprise discount to stimulate add-on purchases

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ABSTRACT

How can the business maximize revenue while providing discounts? This research suggests that hospitality operators may stimulate add-on purchases with the adoption of surprise discounts. Two experiments investigated factors that influence hospitality consumers' ancillary spending. Study 1 tested the discount and product type effects on additional spending intentions for a cruise booking. Study 2 identified how the depth of surprise discount and add-on product type influence consumers' add-on purchase decisions for an online hotel booking. The findings indicate that a surprise discount and hedonic items induce consumers' unplanned purchases. A hedonic add-on item is preferred over a utilitarian item when a low discount is offered. Impulse buying mediates the effect of surprise discount and product type on unplanned purchase intentions. This research extends the traditional discount role, by demonstrating that a discount promotion can induce consumers' additional purchases. The findings provide guidance for effective pricing strategies and add-on marketing mix.

1. Introduction

Discount promotion is a great sales tool to attract customers to the business and increase sales volume (Grewal et al., 1998). For instance, hotels offer online exclusive discounts to customers to increase the volume of direct bookings (Ting, 2017). However, there is a limit to maximizing profits while offering discounts due to the discount amount. Therefore, there is a need to identify how business operators effectively implement discount promotions to increase revenue while minimizing losses.

In this respect, some scholars suggest focusing on what drives consumers' willingness to spend more because increased spending leads to higher profitability (González-Rodríguez et al., 2020; Tang and Lam, 2017). Cross-selling is closely associated with unplanned purchase behaviors because it induces consumers to purchase cross-related products that were not originally intended (Kamakura, 2008). Although it is necessary to understand what drives consumers' unplanned purchases, the majority of hospitality research on cross-selling is not directly linked to such purchases (Hu et al., 2010; Hu and Weber, 2014; Keh and Lee, 2006; Kwon and Jang, 2011; Tanford et al., 2011).

When individuals receive an unexpected gain, which is a windfall gain, they spend such money more easily and readily, resulting in

unplanned subsequent purchases (Arkes et al., 1994; Ha et al., 2006). For example, casino hotels operate luxury boutiques next to the casino, inducing customers to spend the money that they win immediately. Expecting this windfall gain effect, some online retailers offer discounts by having customers play a casino-like game to win a discount (e.g., a wheel of fortune, slot machine, etc.) This research adopts a similar surprise discount format to demonstrate how hospitality businesses can induce consumers' unplanned purchases while offering discounts.

Hospitality add-on items include utilitarian products such as Internet and rental-car and hedonic products such as spa service and food and beverage credit. Hedonic and utilitarian values can influence consumers' pre-and post-purchasing attitudes (Ryu et al., 2010). Hedonic value is closely associated with impulse buying (Miao, 2011). Impulse buying as a mood booster leads to guilty pleasure and pleasurable guilt, which result in hedonic consumption (Miao, 2011; Van Boven and Gilovich, 2003). Individuals with high impulse buying tendencies are more likely to make unplanned purchases (Dhar et al., 2007). A discount creates positive affect (Milliman, 1986), which serves as an internal trigger for impulse buying (Rook and Fisher, 1995). Given the close relationship between discount, hedonic value, and impulse buying, hospitality operators need an effective product mix and pricing strategy to attract individuals with high impulse buying tendency to increase

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unplanned subsequent spending. Moreover, such consumers' responses can differ based on different discount depths (Khan and Dhar, 2010).

The primary purpose of this research is to discover to turn a discount into a profit. Thus, the overarching question is whether a discount will induce consumers to make unplanned purchases online. Specifically, using online booking settings, this research identifies the effect of (1) a surprise discount, (2) discount depth, and (3) product type on consumers' unplanned purchase decisions. The research further investigates how an individual's impulse buying trait mediates such effects when consumers make unplanned purchases.

Linking consumers' unplanned purchases to add-on item sales, this research contributes to knowledge in hospitality about what drives consumers to purchase add-on items. It is inevitable for hospitality businesses to provide discount promotions to increase sales despite the financial loss due to the discount amount. This research provides practical solutions for the critical issue of how hotel operators maximize revenue while providing discounts. The findings of this research provide guidelines to operators for an effective mix of add-on products. Beyond the traditional role of discount to attract customers to the business, this research introduces the extended role of discount by inducing consumers' subsequent unplanned purchases.

2. Literature review

2.1. Discount

A price drop creates a positive mood, which leads to an increase in spending (Milliman, 1986). Previous research found a spillover effect of a price discount, whereby consumers are likely to purchase products in other categories when there is an unexpected discount on a specific product (Ha et al., 2006; Janakiraman et al., 2006). Prior hospitality research focused on the traditional role of discounts as a tool to attract new customers (Lin et al., 2015; Zhu et al., 2019). Although a discount promotion has a positive transient effect on sales, it may hurt the firm's long-term profitability (Kopalle et al., 1999). In other words, although a price promotion is a proper sales strategy to attract new customers, it does not maximize revenue because of the amount of discount. Therefore, it is necessary to implement additional strategies to compensate for the loss arising from a discount.

2.2. Cross-selling

Cross-selling is a sales tool to increase revenue by selling services and products in addition to customers' main purchases (Kamakura, 2008). For instance, hotels can offer ancillary products or services such as a spa or food and beverage credit on top of the hotel room (Lee, 2015). Operators can maximize revenue by increasing sales volume per customer by selling additional products and services to existing customers (Kamakura et al., 2003). While the majority of research on cross-selling takes the perspective of the merchandiser (Rapp et al., 2015; Schmitz et al., 2014), a few works evaluated how consumers' characteristics and attitudes influence cross-selling strategy (Liu-Thompkins and Tam, 2013; Wang and Keh, 2017). Attitudinal loyalty increases a cross-selling promotion's effectiveness, while individual purchase habits render it (Liu-Thompkins and Tam, 2013). Research suggests that consumers with interdependent self-construal are more likely to purchase cross-selling products than consumers with independent self-construal (Wang and Keh, 2017).

The key to successful cross-selling is to induce consumers' subsequent purchases, which were not planned. Understanding when and how consumers make unplanned purchases is necessary for successful cross-selling implementation (Kamakura, 2008). However, little attention is given to the psychological factors that influence consumers' unplanned purchase decisions.

2.3. Windfall gain effect

Research suggests that the windfall gain effect leads to unplanned purchases (Ha et al., 2006; Heilman et al., 2002; Janakiraman et al., 2006). Windfall gain is an unexpected income, which is the absence of anticipation (Arkes et al., 1994). People use a mental accounting system to control their financial activities (Thaler, 1999), whereby they label funds into accounts based on financial goals. Since windfall gains may not have an established account for allocation, such gains may result in rapid spending (Arkes et al., 1994). On the contrary, when consumers receive expected gains, they simply lower the reference price and continue to search for products at a better price (Hodge and Mason, 1995).

Empirical research shows that savings on planned items can create a psychological windfall effect (Heilman et al., 2002), resulting in unplanned purchases (Ha et al., 2006; Janakiraman et al., 2006). When consumers receive a discount playing a promotional game, they tend to have more positive attitudes toward the business and spend more than when they receive a traditional type of discount (Hock et al., 2020). Hospitality research examined the impact of a surprise reward and membership discount reward on consumers' on-site responses at a restaurant (Wu et al., 2015). When cumulative satisfaction was low, a surprise reward led to a more positive response than a 10 % discount reward (Wu et al., 2015).

This reasoning leads to the following hypothesis.

Hypothesis 1. A surprise discount will increase consumers' unplanned subsequent spending intentions compared to no discount.

2.4. Product type

Consumption takes place for hedonic or utilitarian reasons (Hirschman, 1986). Although most products contain both hedonic and utilitarian features, they can be broadly categorized as predominantly hedonic or utilitarian (Batra and Ahtola, 1991; Holbrook, 1986). Utilitarian consumption occurs when a purchase is made for necessity (Bazerman et al., 1998). People are motivated to purchase utilitarian products by functional product aspects (Babin et al., 1994). Utilitarian products are less emotionally arousing, provide a rationale, and are evaluated based on cognitive benefits (Hirschman, 1980). On the contrary, hedonic products create emotional arousal (Mano and Oliver, 1993). Thus, consumers make hedonic consumptions for affective and experiential benefits to satisfy sensory pleasures (Bazerman et al., 1998). People feel positive mood after hedonic consumption (Hirschman, 1980) and tend to continue shopping to maintain the positive mood (Donovan et al., 1994; Rook, 1987).

Hypothesis 2. A hedonic add-on item will increase consumers' subsequent purchase intentions compared to a utilitarian add-on item.

2.5. Impulse buying

Impulse buying is generally considered a part of unplanned purchases, that is, it describes the purchase decision that is made after the consumer enters a retail environment (Rook, 1987). Although impulse buying is differentiated from unplanned purchases in that it occurs spontaneously (Dholakia, 2000), the definition indicates that impulse buying is closely associated with unplanned purchases. Previous research shows that individuals with low impulsiveness can exert enough self-control to refrain from making unplanned purchases, while individuals with high impulsiveness have difficulty doing so (Stille et al., 2010).

Impulse buying is reactive behavior, which involves an immediate response to stimuli (Rook, 1987). Thus, external factors such as marketing cues can lure consumers' impulse buying behaviors (Youn and Faber, 2000). For example, consumers can feel the urge to buy impulsively when promotional incentives are provided (Dholakia, 2000). The

positive mood arisen by the receipt of a windfall gain can induce consumers' impulse buying, which turns to unplanned purchases (Heilman et al., 2002). Previous research found that price promotion had a positive effect on impulse buying behaviors (Hosseini et al., 2020).

Research demonstrates that personal tendency can play a vital mediating role in an experiential retail setting. Shop enjoyment can create high level of impulse buying tendency, which results in actual impulse buying behaviors (Saad and Metawie, 2015). The positive mood produced by the receipt of a price promotion induces impulse buying tendencies (Hosseini et al., 2020). Therefore, it is predicted that people with a high impulse buying tendency will be likely to spend more when they receive a surprise discount.

Hypothesis 3. Impulse buying traits will enhance the effect of a surprise discount on likelihood to purchase an add-on item.

Hedonic consumption requires justification because it evokes a sense of guilt (Kivetz and Simonson, 2002). The justification for hedonic consumption is more complicated than for utilitarian consumption (Thaler, 1980). The discount on a hedonic add-on item justifies consumption by reducing guilt associated with a hedonic purchase (Mishra and Mishra, 2011). Because a utilitarian purchase is not associated with guilt, a surprise discount has little impact on it. Therefore, when a price discount is offered, consumers will prefer a hedonic product to a utilitarian product. Previous research demonstrates that consumers' intentions to purchase are higher when a bundled product is framed as savings on a hedonic component versus a utilitarian component (Khan and Dhar, 2010).

Such product type effects can differ based on the depth of discount. High discount levels can reduce promotional effectiveness for hedonic products, whereas no such effect occurs for utilitarian products (Eisenbeiss et al., 2015). Once the discount level increases to a certain threshold, consumers do not place additional value on further discounts (Gupta and Cooper, 1992). Gupta and Cooper's research showed that the discount saturation point was about 20–30 % but was lower for a name brand than a store brand. A name brand could be considered more hedonic than a store brand that serves the same function. Likewise, hospitality research suggests that consumers begin questioning if they received the best deal when the discount on a travel product is more than 30 % (Park and Jang, 2018).

Based on this rationale, it is predicted that when the discount depth is low, consumers' intention to purchase hedonic products will be greater than the intention to purchase utilitarian products. However, when the discount depth is medium or high, discounts will not influence intentions to purchase hedonic versus utilitarian add-on items.

Hypothesis 4. Discount depth will interact with product type on intentions to purchase an add-on item.

Hypothesis 4a. The intention to purchase a hedonic item will be greater than a utilitarian item with a low discount.

Hypothesis 4b. Product type will not influence purchase intention with a medium or high discount.

Impulse buying is stimulus driven (Rook and Fisher, 1995), such as cross-selling product recommendation (Dawson and Kim, 2009). In other words, impulse buying can be enhanced by suggesting add-on items that are conducive to impulse buying. Hedonic consumption and impulse buying behaviors share the same shopping motivation. Impulse buying is an affective behavior, such that people want to maintain their positive mood (Rook and Fisher, 1995). Likewise, hedonic consumption is made because people want to satisfy sensory pleasures (Bazerman et al., 1998). Utilitarian consumption requires more deliberate cognitive process (Hirschman, 1980), whereas impulse buying is spontaneous. Therefore, a hedonic product type is expected to induce more impulse buying tendencies than utilitarian because both behaviors are closely associated. Such an effect is likely to diminish as discount depth reaches the saturation point (Gupta and Cooper, 1992). Although high discounts

decrease promotional effectiveness for hedonic purchases, time constraints increase the likelihood of hedonic purchases (Eisenbeiss et al., 2015). Impulse buying occurs within a shorter time than normal purchases (Dholakia, 2000), so it is expected to increase the saturation point for discount amount. Since hedonic purchases are already expected at a low discount (H4) impulse buying is hypothesized to increase such purchases primarily with a medium discount.

Hypothesis 5. When a medium discount is provided, impulse buying traits will mediate the effect of product type on intentions to purchase add-on items.

This research consists of two experiments. Study 1 tests if a surprise discount and product type induce consumers' additional spending intentions. Study 2 demonstrates how consumers respond based on different depths of surprise discount and product types when they make purchase decisions for add-on items. The mediating role of impulse buying tendency between stimuli is subsequently tested in each study.

3. Study 1

3.1. Method

3.1.1. Design

Study 1 utilized an online cruise line setting to test H1, H2 and H3. A 2 (discount: none vs. surprise) \times 2 (product type: hedonic vs. utilitarian) factorial experiment was used. A surprise discount was depicted as the presence of a surprise discount. For the no-discount group, the regular cruise rate was displayed. Product type was the option to select an add-on item after the cruise purchase. The utilitarian product was an onboard internet package and the hedonic product was a cabin upgrade.

3.1.2. Operationalization of variables

Pretesting was conducted to identify the effective stimuli. The surprise discount message with the highest degree of surprise ($M = 4.13$) was selected after reviewing the ratings of eight surprise messages. Participants evaluated several cruise cabin rates and discount amounts. The finalized regular cabin rate was \$1399 for the no-discount group and the discount amount was 35 %. Participants rated 11 cruise add-on items on utilitarian value, hedonic value, appealing, willingness-to-pay in a dollar amount, and likelihood to purchase. Based on the all ratings, an onboard internet package and a cabin upgrade were selected for a utilitarian and hedonic add-on item, respectively. Repeated-measures ANOVA revealed significantly higher ratings of utilitarian value for the internet package ($M = 5.12$) versus the cabin upgrade ($M = 3.93$), $F_{1,45} = 19.71$, $p < .00$, $\eta^2 = 0.31$. Ratings of hedonic value were significantly higher for the cabin upgrade ($M = 6.01$) than for the onboard internet ($M = 5.07$), $F_{1,45} = 10.79$, $p = .00$, $\eta^2 = 0.19$. The analysis on appealing, WTP\$, and LTP revealed that there was no main effect of product type ($F_s < 1.80$, $p > .19$). On average, participants were willing to pay \$66 for the cabin upgrade and \$57 for onboard internet. Therefore, the manipulation was appropriate for Study 1.

3.1.3. Procedures and measures

A total of 296 participants who had made at least one online cruise booking in the past five years were recruited by an online research firm, Qualtrics. To achieve randomization, 74 subjects were randomly assigned to each of four manipulated conditions. The required sample size was calculated using GPOWER software (Erdfelder et al., 1996), and is sufficient to detect a medium-size effect at the 0.05 significance level with 0.85 power (Cohen, 1992).

A hypothetical online cruise line booking for a 7-day Caribbean cruise trip for a vacation in January 2020 was used. Participants read the given scenario on the first screen and saw an online cruise line booking website that resembles an actual cruise booking site. A regular cruise rate (\$1399) was displayed with a product description. On the second page, participants in the no-discount group saw the same screen as the

first page and were asked to select the product to book (See Fig. 1). Participants in the surprise discount group saw a surprise message, saying that they won a prize in the form of a 35 % surprise discount. Below the surprise-tag, they saw the regular rate struck through and the discounted cruise rate (\$909.35) with the saving amount (\$489.54). They were asked to select the product to book. On the following screen, willingness-to-spend more (WTSM), "This deal makes me want to spend more on my entire trip (per person, including air, transportation, hotel, etc.) in addition to the cruise," was rated with a 7-point Likert scale (1: Strongly disagree – 7: Strongly agree). On the fourth screen, either a cabin upgrade as a hedonic add-on item or an on-board internet package as a utilitarian add-on item was displayed with a photo and description. Then, participants entered the dollar amount that they were willing to pay for the offered add-on item (WTP\$) and rated nine items of the impulse buying tendency scale (1: Strongly disagree – 7: Strongly agree; $\alpha = .87$) developed by Rook and Fisher (1995). The items include "I often buy things spontaneously," "I often buy things without thinking," and "Sometimes I feel like buying things spur of the moment."

For the discount manipulation check, participants were asked to choose the offered discount %. For the add-on item manipulation check, participants chose one of three add-on items (spa treatment, on-board internet package, and cabin upgrade). To verify the perceived utilitarian/hedonic value for each add-on item, one measure of perceived utilitarian value, "If I purchase this item, I will purchase it because it is necessary," and hedonic value "If I purchase this item, I will purchase it because it is enjoyable" were rated on a 7-point Likert scale (1: Strongly disagree – 7: Strongly agree). Participants reported how realistic the cruise booking scenario was, using a 7-point scale (1: Extremely unrealistic – 7: Extremely realistic). Lastly, demographic related questions were asked.

3.2. Results

3.2.1. Demographic profile

The sample was 74.0 % female and 26.0 % male. Approximately 50.7

% of the sample was married. Most of the respondents were older than 40 years old (55.4 %). Approximately 74.7 % of respondents described their ethnicity as Caucasian, followed by African American (11.1 %) and Asian (5.7 %). More than half of the sample had a 4-year college degree or a graduate degree (56.8 %). The median annual income was approximately \$60,000.

3.2.2. Manipulation checks

The discount manipulation check results revealed that 81.8 % of the no-discount group participants reported that they did not receive any discount, and 95.3 % of the participants in the surprise discount group chose the correct type of discount.

One-way ANOVAs were conducted to analyze the effect of add-on product type on hedonic/utilitarian value. The results revealed a significant main effect of add-on product type on perceived utilitarian value ($F_{1, 294} = 34.73, p < .00, \eta^2 = 0.11$) and perceived hedonic value ($F_{1, 294} = 17.69, p < .00, \eta^2 = 0.06$). Participants rated higher utilitarian value for the on-board internet package ($M = 4.50$), than the cabin upgrade ($M = 3.16$). Participants reported higher hedonic value for the cabin upgrade ($M = 5.92$) than for the on-board internet ($M = 5.18$). The results indicate that the product type was successfully manipulated.

The overall mean of realism for the experiment was 5.11. The realism ratings for all the manipulated conditions were not different, indicating that the experiments were equally realistic over the four experiment conditions ($F_s < 1, p > .83$).

3.2.3. Windfall gain and product type effect

A series of two-way ANOVAs was conducted on WTSM and WTP\$ to measure the effect of surprise discount and product type. The analysis found a significant main effect of surprise discount on WTSM ($F_{1, 292} = 18.14, p < .00, \eta^2 = 0.58$). Participants' WTSM was higher when they received a surprise discount ($M = 4.64$) than when they received no discount ($M = 3.82$). The results reveal that H1 is supported. A significant main effect for product type on WTP\$ was found, supporting H2 (F_1 ,

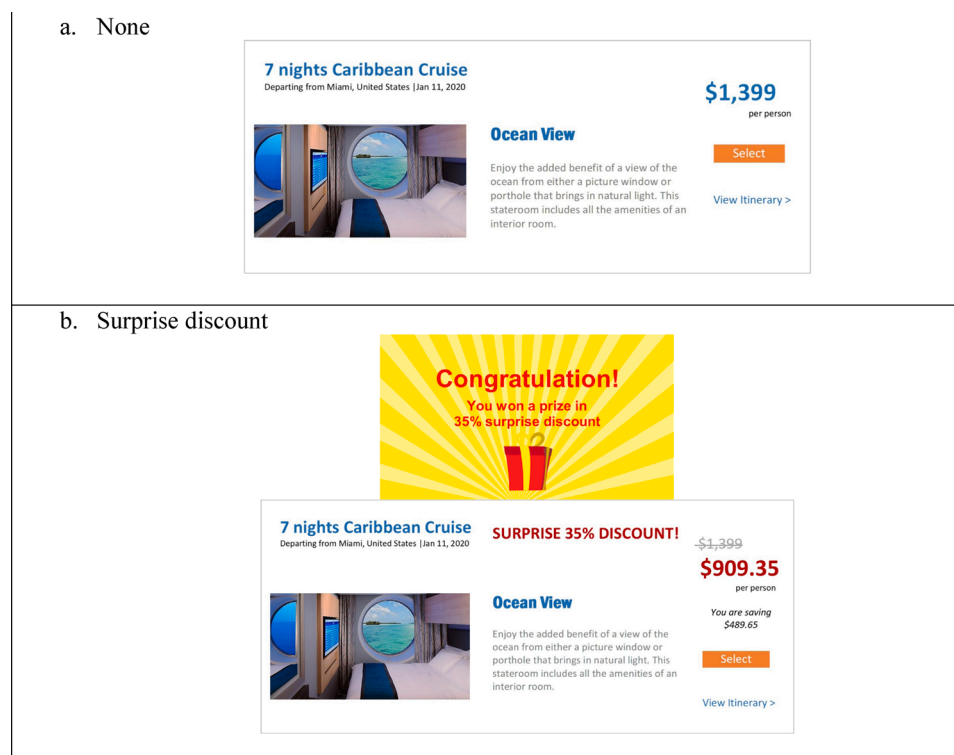


Fig. 1. Discount type stimuli in Study 1.

$_{292} = 32.41, p < .00, \eta^2 = 0.10$). Participants reported that they were willing to spend more for a cabin upgrade (\$194.90), than for an on-board internet package (\$90.95).

3.2.4. The mediating role of impulse buying

The mediating effect of impulse buying between discount and WTSM was subsequently tested, utilizing a bootstrapping analysis with model 4 (Hayes, 2013). Fig. 2 displays the mediation effect. The discount was entered as the independent variable, impulse buying was entered as the mediator, and WTSM was entered as the dependent variable in this model. The results reveal that the effect of discount on consumers' willingness to spend more is enhanced through impulse buying tendency (total effect = .192, $p = .00$; 95 % CI = .44–1.19). Specifically, the direct effect of discount on WTSM was found (direct effect = .194, $p = .00$; 95 % CI = .30–1.06). A surprise discount indirectly influences WTSM through impulse buying tendency (indirect effect = .138; 95 % CI = .04–0.26). Therefore, H3 is supported.

4. Study 2

Study 1 shows that a surprise discount and a hedonic add-on item induce consumers' intentions to spend more. The effect of surprise discount on consumers' willingness to spend more was enhanced through individual impulse buying tendency. Study 2 adds the variable of discount depth to determine how different amounts of surprise discount influence add-on purchases along with the mediating role of impulse buying tendency.

4.1. Method

4.1.1. Design

Study 2 used a 3 (discount depth: low vs. medium vs. high) \times 2 (product type: utilitarian vs. hedonic) between-subjects design to identify the effects of discount depth and product type on consumers' intentions to purchase add-on items (H4). How impulse buying tendency mediates the interacting effects of product type and discount depth on add-on item purchase decisions was analyzed to test H5.

4.1.2. Operationalization of variables

Pretesting was conducted to identify the most effective discount depths and add-on product types. Based on the means and medians, the regular rate per night was finalized at \$199. The finalized discount depths include 10 % for the low discount, 25 % for the medium discount, and 40 % for the high discount. Participants rated thirteen add-on items on utilitarian value, hedonic value, appealing, the likelihood to purchase (LTP) the add-on item with a hotel booking, and willingness-to-pay for the add-on item (WTP\$). Repeated-measures ANOVA revealed that the rental car was rated significantly higher on utilitarian value ($M = 5.48$) than the hotel spa ($M = 3.59$), $F_{1,57} = 50.57, p < 0.00, \eta^2 = 0.47$. The

hotel spa was rated significantly higher on hedonic value ($M = 6.19$) versus the rental car ($M = 4.18$), $F_{1,57} = 53.51, p < 0.00, \eta^2 = 0.48$. The two products did not differ significantly on appealing, LTP, or WTP\$ ($F_s < 2.74, p > .10$). Participants were willing to pay approximately \$75 for both items. Therefore, hotel spa and rental car are appropriate hedonic and utilitarian items for Study 2.

4.1.3. Procedures and measures

Participants were randomly assigned to one of six experiment conditions with 41 subjects per condition. The sample size is sufficient to detect a medium effect size with a power of 0.80 at the 0.05 significance level (Cohen, 1992).

A hypothetical hotel booking scenario was used for Study 2. Participants were asked to plan a 3-day trip to Chicago for their vacation in September. On the first page, participants saw the displayed results of a hotel room rate search from a meta-search engine (Kayak.com), whereby the hotel is selling at the same regular rate (\$199/night) across multiple booking websites, including the hotel brand website and online travel agency (OTA) websites. Participants were directed to the hotel brand website on the second page. They saw a surprise message, which indicated that they won a prize in the form of a 10 % (or 25 %, or 40 %) surprise discount. Below the message, the discounted hotel room rate for three nights was displayed with the regular rate crossed out and the total saving amount (10 %: \$59.70; 25 %: \$149.25; 40 %: \$268.65). After reading the scenario, participants selected the room to book. On the third page, participants saw either the hedonic (hotel spa) or the utilitarian (rental car) add-on item with a description. Then, participants rated the likelihood to purchase the add-on item with the hotel room (LTP) on a 7-point Likert scale (1: extremely unlikely – 7: extremely likely). An open-ended question asked participants to enter the dollar amount they are willing to pay for the offered add-on item (WTP\$). A binary choice for intention to purchase the offered add-on item with their hotel stay was asked (Yes or No). For impulse buying, nine items ($\alpha = 0.86$), developed in previous research were utilized (Rook and Fisher, 1995).

On the last screen, participants answered manipulation check questions and demographic variables. Using a sliding scale ranging from 0% to 100 %, they indicated the discount % received in the online hotel booking scenario. For the add-on item manipulation check, four photos and descriptions of add-on items (spa treatment, late check-out, rental car, room upgrade) were displayed, and participants chose the one they were offered in the scenario. As done in Study 1, the perceived utilitarian/hedonic value for each add-on item was rated on a 7-point Likert scale (1: Strongly disagree – 7: Strongly agree) for the product type manipulation check. Then, participants evaluated the degree of realism using a 7-point scale (1: Extremely unrealistic – 7: Extremely realistic). For the demographic measures, gender, age, education level, ethnicity, house income level, and marital status were asked.

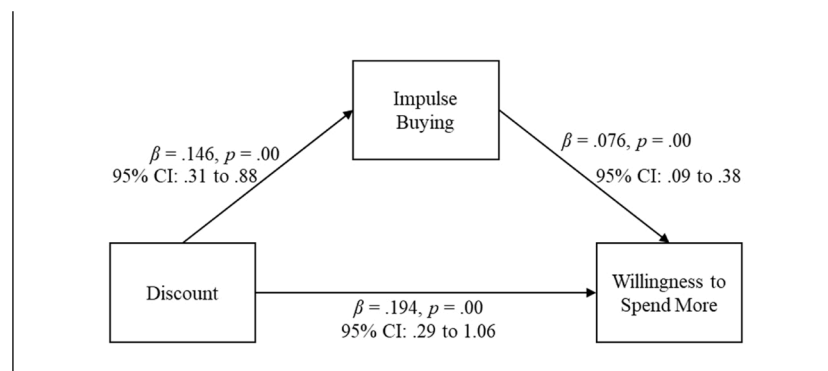


Fig. 2. Mediation model for willingness to spend more.

4.2. Results

4.2.1. Demographic profile

The sample was 69.8 % female and 30.2 % male. Approximately 46.0 % of the sample was single, and 43.4 % of the sample was married. More than half (64.6 %) of the sample had age ranges between 18 and 39 and had a 4-year college degree or graduate degree (52.9 %). The median annual income was approximately \$60,000. Most of the sample (70.9 %) was Caucasian, followed by African Americans (10.1 %).

4.2.2. Manipulation checks

To check the discount manipulation, participants indicated the discount amount that they were offered using a sliding scale with the range from 0% to 100 %. A one-way ANOVA revealed that the three groups were strongly and significantly different ($F_{2,243} = 293.02, p = .00, \eta^2 = .71$). Participants reported a discount depth of 12.23 % in the low group, 24.54 % for the medium group, and 41.57 % for the high group. According to Cohen (1988), eta-squared values of 0.01, 0.06, and 0.14 are considered small, medium, and large effects, respectively so the difference is large and in the intended direction. Therefore, discount depth was effectively manipulated.

One-way ANOVAs evaluated the effect of add-on product type on utilitarian and hedonic value. There was main effect of add-on product type on utilitarian value ($F_{1,244} = 47.60, p = .00, \eta^2 = 0.16$) and hedonic value ($F_{1,244} = 34.10, p = .00, \eta^2 = 0.12$). The mean perceived utilitarian value was 5.28 for the rental car and 3.58 for the hotel spa, whereas the hedonic value was rated 5.93 for the hotel spa and 4.78 for the rental car. Therefore, both product types worked as intended with large effects (Cohen, 1988). Two one-way ANOVAs reveal that perceived realism did not differ as a function of discount ($F_{2,243} = .88, p = .42$) or add-on product type ($F_{1,244} = 0.32, p = .57$). The mean for realism was 5.12 on a 7-point scale, indicating that participants perceived the scenario as equally realistic for all six experimental conditions.

4.2.3. Discount depth effect by product type

Two 2×3 ANOVAs with discount depth and product type were conducted on the likelihood to purchase the add-on item (LTP) and willingness-to-pay in dollars (WTP\$). The analysis revealed a marginally significant main effect for discount depth ($F_{2,240} = 2.58, p = .08, \eta^2 = 0.02$) and a significant main effect for product type ($F_{1,240} = 14.14, p = .00, \eta^2 = .05$) on WTP\$. Bonferroni post-hoc analysis indicates that participants were willing to pay more when they received a high discount ($M = \$90.11$) compared to when they received a medium discount ($M = \$73.52$) or low discount ($M = \61.76), which are not different from each other. For product type, respondents reported that they were willing to pay more for the hedonic

item ($M = \$94.39$) than for the utilitarian item ($M = \$55.87$).

A significant two-way interaction between discount depth and product type on LTP was found, $F_{2,240} = 9.92, p = .00, \eta^2 = .08$; however, the interaction was not significant on WTP\$, $F_{2,240} = .78, p = .46$. To determine the source of the interaction, the simple effect of product type on LTP at each level of discount depth was analyzed. Fig. 3 depicts the results. When a low discount was offered, respondents rated higher LTP for the hotel spa, which is a hedonic item ($M = 4.54$), than for the rental car, which is a utilitarian item ($M = 2.56$), $F_{1,80} = 33.64, p = .00, \eta^2 = .27$. However, when a medium or a high discount was offered, the product type did not significantly influence respondents' LTP ($F_s < 2.01, p > .16$). Therefore, the interactions in H4 are supported.

Logistic regression was utilized to analyze binary choice for add-on item purchasing (purchasing = 1, not purchasing = 0). Two independent variables and their interactions were entered as predictors. For discount, low discount, the reference group, was coded as 0, medium discount was coded as 1, and high discount was coded as 2. For product type, rental car (utilitarian) was entered as the reference group, coded as 0, and hotel spa (hedonic) was coded as 1. The Nagelkerke R^2 is 0.049, indicating that the model accounts for 4.9 % of the variance in add-on item purchasing choice.

The result found a significant discount depth \times product type interaction ($B = -0.80, Exp(B) = .45, Wald = 6.24, p = .05$). The simple effect of product type was analyzed by conducting a logistic regression on add-on item choice at each level of discount depth. When a low discount was offered, 70.7 % of cases were correctly classified. The effect of product type was significant ($B = 1.77, Exp(B) = 5.87, Wald = 13.23, p = .00$). The odds ratios that respondents choose a hedonic add-on item are 5.87 times the odds that they choose a utilitarian add-on item when there is a low discount. The effect of product type was not significant when a medium discount was offered ($B = -0.52, Exp(B) = .59, Wald = 1.29, p = .26$) or when a high discount was offered ($B = .10, Exp(B) = 1.10, Wald = 0.05, p = .83$).

The percentage of time that each add-on item was selected as a function of discount depth and product type is displayed in Fig. 4. When a low discount was offered, 73 % of the respondents chose a hedonic product and 32 % of the respondents chose a utilitarian product. This result confirms the findings for LTP, as a hedonic product is more attractive when a low discount is offered, supporting H4a. In contrast, when a medium or high discount was offered, the product type effect was not significant on LTP or product choice. Therefore, H4b is supported.

4.2.4. The mediating role of impulse buying

To test H5, a moderated mediation analysis (model 8; Hayes, 2013)

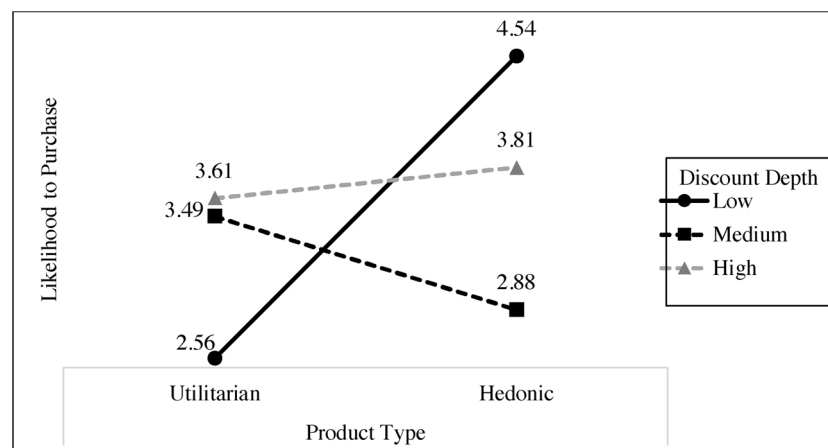


Fig. 3. The effect of product type by discount depth.

Note: Solid line indicates significant; Dashed line indicates not significant at $*p < .05$.

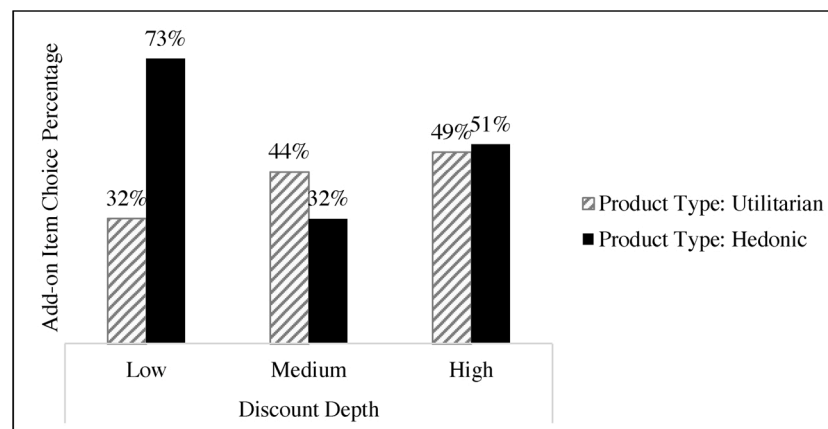


Fig. 4. Add-on item choices as a function of discount depth.

was conducted. In the model, the likelihood to purchase add-on items was entered as the dependent variable, product type as the independent variable, discount depth as the moderator, and impulse buying tendency as the mediator. The bootstrapping results (Table 1) indicate that impulse buying tendency mediate the interactive effect between product type and discount depth. The results show that when the medium discount was provided, impulse buying mediates the effect of product type on likelihood to purchase add-on items. Specifically, a hedonic add-on product induces more consumers' impulse buying traits ($M = 4.00$) than a utilitarian add-on product ($M = 3.64$), thereby influencing consumers' likelihood to purchase add-on items. The mediating effect was not significant when the low discount and the high discount were provided. Therefore, H5 is supported.

4.2.5. Summary

Study 2 provides practical findings, such that how consumers' add-on product preference can be differently influenced based on the depth of discount. The findings show that a hedonic add-on item is more attractive when a small discount is provided. On the contrary, utilitarian product choice continuously increases as discount depth increases. A hedonic product induced consumers' impulse buying when the medium discount was provided, which then increased likelihood to purchase.

5. Discussion and implications

5.1. Discussion of findings

This research identifies how consumers respond to a surprise discount and product type when making unplanned purchase decisions. The results from Study 1 reveal that a surprise discount (H1) and a hedonic add-on item (H3) induce consumers' unplanned additional spending intentions. The findings correspond to previous research in retail settings (Ha et al., 2006; Heilman et al., 2002; Hirschman, 1980; Hock et al., 2020). The results from Study 2 demonstrate that how such effects interact when consumers make actual add-on purchase decisions.

Table 1
Conditional Indirect Effects of Product Type on Likelihood to Purchase Add-on Items.

Product Type	Discount Depth	IMP (M)	SE	95 % LLCI	95 % ULCI
Utilitarian	Low	3.50	.14	-.053	.489
Hedonic	Low	3.87			
Utilitarian	Medium	3.64	.09*	.031	.395
Hedonic	Medium	4.00			
Utilitarian	High	3.77	.14	-.056	.489
Hedonic	High	4.13			

Note: IMP indicates impulse buying tendency.

* $p < .00$.

The results show that consumers preferred a hedonic product to a utilitarian product when they received a low surprise discount (H4a). In contrast, when a medium or a high discount is provided, consumers no longer consider product type as a critical factor when making unplanned purchases (H4b). This finding supports previous research, whereby consumers' intentions to purchase are higher when a bundle product is framed as savings on a hedonic component compared to a utilitarian component (Khan and Dhar, 2010). The logistic regression analysis results show that the proportion of utilitarian product choices increased as discount depth increased.

Both studies illustrate that an impulse buying tendency enhances a surprise discount effect (H3) and a hedonic product type effect (H5) on consumers' unplanned purchasing intentions. One interesting finding is that the hedonic add-on item induces more impulse buying traits than the utilitarian add-on item only when a medium discount is provided. Previous research suggests that a discount effect tends to diminish as a discount depth reaches the saturation point (Gupta and Cooper, 1992). However, this finding shows that impulse buying, which occurs with time constraints, can increase such saturation point for the discount amount.

5.2. Theoretical implications

First, this research adds to the knowledge of add-on items in hospitality. Previous hospitality research focused on bundling or packaging for cross-selling (Kwon and Jang, 2011; Tanford et al., 2012). However, the nature of the components of bundled packaging is fundamentally different from add-on items. The consumption of a bundled product is made simultaneously, while hotel bookings and add-on item purchases are made sequentially. In other words, the components of a bundled package are considered as planned purchases, whereas add-on items are unplanned purchases. Accordingly, it is necessary to understand how and when consumers make unplanned purchases for effective add-on selling. This research shows how product type matters when a subsequent purchase occurs after the main purchase is made. Although previous marketing research demonstrated how a discount and the product mix of a bundle package influence consumers' purchase intentions online (Khan and Dhar, 2006), this research breaks new ground by examining such effects in a sequential purchase decision situation consists of planned and unplanned purchases.

Second, this research contributes to the pricing literature by introducing a new role of discount. It is traditionally accepted that a discount promotion's role is to attract customers to the business (Grewal et al., 1998). Previous hospitality research demonstrated how consumers respond to a discount when making the main product purchase (Lin et al., 2015; Park and Jang, 2018; Zhu et al., 2019). This research demonstrates the extended effect of a price promotion by showing that it

induces consumers' subsequent purchases, which increase overall sales volume and profit. Additionally, the current research shows how each discount level drives consumers' preferences for the type of unplanned product.

Finally, this research establishes the generality of the identified determinants by examining key drivers' effect in two different hospitality segments. Previous research suggests that the decision process and outcomes need to be evaluated by the hospitality context (Kim and Tanford, 2019). There are fundamental differences between hospitality segments, such as the level of risk associated with the decision (Kim and Tanford, 2019; Tanford and Kim, 2019). In this research, the absolute saving value from a discount is different between hotel and cruise. The findings show that, regardless of the business type, if hospitality operators adopt the surprise discount format, they have the potential to make up losses from the discount with an add-on sale.

5.3. Practical implications

The research suggests that a surprise discount can induce consumers' unplanned purchases, and its effect can be enhanced through impulse buying tendencies (Dawson and Kim, 2009). The elevated mood by a surprise tag may indirectly induce consumers' unplanned purchases through an enhanced impulse buying tendency. Casino video machines, such as slot machines or bingo games, often use uplifting visual effects and music to make customers feel happy and bet more. Likewise, hospitality operators may use mood-enhancing music and visual effects along with a surprise tag to elevate customers' mood and increase impulse buying.

The findings of the research provide hotel operators with practical suggestions to induce consumers' add-on purchases. The findings indicate that consumers are more likely to make subsequent purchases when they receive a surprise discount. Add-on items should be displayed before they pay for their main products to induce customers to spend the savings that they receive from a surprise discount. Previous research suggests that the unplanned product needs to occur in close proximity to the main purchase (Heilman et al., 2002). A separate transaction will diminish the windfall gain effect arising from a surprise discount.

The findings show that the preference of product type differs on the depth of discount, such that the preference for hedonic items is greater than utilitarian items when the discount depth is low. The position of the product on the website may increase the conversion rate as well (Agarwal et al., 2011). Thus, hedonic add-on items could be displayed in more viewable positions than utilitarian add-on items when a low discount is provided. If discounts are used in conjunction with mood-elevating cues that increase impulse buying, this tactic may work with a medium discount as well. Deeper discounts increase customers' add-on purchases regardless of product type preference. Therefore, hospitality operators need to mix hedonic and utilitarian add-on items effectively when they provide a high discount.

5.4. Limitations and future study

This research has some limitations that can be advanced in future research. First, the method used scenario-based experiments in which participants did not make actual purchase decisions. Realism ratings were above the scale midpoint, albeit moderately, confirming that the scenarios did not fully capture a live booking situation. This laboratory approach is common in social science experiments as it allows the researcher to control the independent variables and determine causality. In hospitality/tourism research, it is particularly beneficial for investigating the psychological processes underlying a phenomenon (Viglia and Donicar, 2020). Future research is called for to extend the findings to actual booking environments. Field experiments can be conducted by partnering with hospitality operators to examine the effect of surprise versus regular discounts on consumers' purchases for different types of add-on products. The member-only discount promotion can be

considered a surprise discount. Therefore, future research may utilize secondary data to determine how this member-only discount promotion produces add-on item sales and how it compares to a regular hotel discount. Using secondary data, preference for add-on product type by the presence of discount can be analyzed.

Second, this research uses a sample drawn from a survey panel, which may not represent the population. Future research should investigate this topic with other subject populations. For example, generational differences could exist, as Millennials are more eager to explore various experiences than prior generations, such as baby boomers or Generation X (Williams and Page, 2011). Research indicates that Millennials exhibit distinctive responses to restaurants' marketing promotions (Nyheim et al., 2015), and the same principle may operate for hotel discount promotions.

Third, this research offered one add-on product in the booking scenarios. Hospitality operators provide multiple add-on products that customers can compare and purchase. Future research may offer a choice of multiple items to identify how consumers make unplanned purchases when various add-on items are available. Since the add-on item's price was not displayed in this research, future research can determine how the savings amount or discount depth influences consumers' add-on purchases with different prices.

This research highlights that hospitality operators can turn discounts into profits by adopting the surprise discount format and cross-selling. Knowing how consumers respond to price promotions and make unplanned purchases can help hospitality operators develop effective marketing strategies to sell add-on products.

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