How Do Low-Price Guarantees Deter Consumer Price Search? - the Effects of Branded Variants and Search Cost

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Low-price guarantees (LPGs) are a storewide pricing policy widely used by retailers for projecting a price-competitive image. Retailers believe that LPGs act as signals of low store prices. Research on LPGs has found that these price signals might discourage consumers from price searching. Given the increasing popularity of LPGs, it is important to find out what factors would attenuate or magnify the degree of consumer price search under the influences of LPGs. In this paper, I propose that consumers’ price search in response to LPGs are affected by two factors: search cost and branded variants. Drawing on signaling theory and information processing research, I provide theoretical explanations and develop hypotheses with respect to consumers’ reactions to LPGs when (1) individuals’ search cost differs and when (2) branded variants are present or absent in the retail market. Data collected from a computer-simulation experiment are used to test the hypotheses. The empirical results provide evidence in supportive of the hypotheses.

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EXTENDED ABSTRACT

Retailers establish their price-images through a variety of price signals like discount frequency and magnitude, reference prices, sale signs, “loss leader” items, and every day low price policies. Because consumers usually lack complete price information in the market, they tend to use salient and accessible price cues to make store price inferences (Alba et al. 1994; Bobinski et al. 1996; Simester 1995; Urbany et al. 1988). Retailers may thus capitalize on this consumer disposition by delivering signals of low store prices. In this paper, we focus on LPG signals because they are effective signals that influence consumers’ price and value perceptions, store patronage intention, and search behavior.

Compared with other price signals, LPGs have a relatively short history in the retail market; research on its implications for consumer behavior is emerging but still scarce. Previous research has examined their impacts together with a number of market-level and individual-level variables including store image, store location, consumer search cost and price knowledge, external reference prices, and selling price levels on consumers’ perceptions and search behavior (Biswas et al. 2002; Srivastava and Lurie 2001; Srivastava and Lurie 2004; Lurie and Srivastava 2005). Nevertheless, our understanding of the effects of LPGs on consumer price search is still limited. Given that LPGs have been found to discourage consumers from shopping around (Srivastava and Lurie 2001), it is important to find out what factors would attenuate this behavioral tendency. Drawing on signaling theory and information economics, we provide theoretical explanations and develop hypotheses with respect to consumers’ responses to LPGs when (1) individuals’ search cost differs and when (2) branded variants are present or absent in the market.

Specifically, we argue that LPGs are non-credible signals of low store prices when there are branded variants in the market. As such, when consumers perceive a LPG signal to be credible due to the absence of branded variants, they lack motivation to do price search. In contrast, when a LPG signal is perceived as non-credible due to the presence of branded variants, consumers may tend to search more. However, the effect of branded variants on consumer price search is likely to be qualified by consumers’ own search cost. Therefore, it is hypothesized that the number of stores searched is less when there is no branded variant (relative to its presence) in the market. This relationship is significant when consumers bear high search cost. When consumers bear low search cost, the difference in the number of stores searched between a market with branded variants and a market without branded variants should be less pronounced or even minimal. This is because when search cost is low, consumers can afford to search more stores even though there is no branded variant in the market and the LPG signal is credible.

Ninety undergraduate business students were recruited at a major university to participate in the experiment conducted in a computer lab. Subjects were randomly assigned to individual computers and instructed to use a program that simulated cross-store price search experience. The experiment was a 2 x 2 between-subjects factorial design that manipulated individuals’ search cost (low versus high) and branded variants (absence versus presence) in the market. The 2 x 2 ANCOVA results showed that search cost ($M_{High} = 4.03$ and $M_{Low} = 5.24$; $F(1, 76) = 6.6, p<.05$) and the interaction between search cost and branded variants significantly affected the number of stores searched ($F(1, 76) = 7.90, p<.01$). Simple effect analyses showed partial support for the hypotheses.

This study contributes to the extant literature on LPGs in a number of ways. First, it examines the implication of a specific market condition—branded variants—for consumers’ price search when they receive LPG signals in the retail market. Second, it examines the interaction effect of branded variants and individual-level search cost on consumer price search. Since the presence of branded variants can reflect market-level search cost, the latter is operationalized in the experiment in a fashion independent of individual-level search cost. Our findings show that consumers’ price search in response to the LPG is dependent on their search cost and whether branded variants are present or absent in the retail market.

REFERENCES


