The Effects of Contextual Prices on Consumers’ Brand Evaluation: a Test of Alternative Reference Price Models

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Consumer’s price evaluation is susceptible to contextually presented prices. The existing literature suggests that price evaluation is affected by (1) the range of the context prices, (2) the price rank in the price set, and (3) the average context price. The results of three studies present converging evidence that which feature of the context price plays a more important role is moderated by the type of evaluation task. The range has stronger influence when evaluating attractiveness of a target, whereas either the rank or the average price effect is predominant when deciding on whether or not to purchase a brand.

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EXTENDED ABSTRACT

Consumer’s price evaluation is often susceptible to other price information available in decision context (Janiszewski and Lichtenstein 1999; Niedrich, Sharma, and Wedell 2001). For example, consumers use prices of other alternatives in the evoked choice set as their reference prices and incorporate this information into their evaluation of a target brand (e.g., Rajendran and Tellis 1994). Prior research has proposed various theories explaining the reference price effects. These theories include the adaptation-level (AL) theory (Helson 1964), the range theory (Volkmann 1951) and the range-frequency theory (Parducci 1963). These theories differ in terms of which specific feature of the price distribution plays the most important role in affecting consumer price evaluation. First, the adaptation-level theory suggests that consumer’s evaluation is influenced mainly by the relative position of the target to the arithmetic or geometric average of the contextual prices. Second, the range theory proposes that the relative distance of the target to the extreme prices in the given context price range is the most important influencing factor. Finally, range-frequency theory claims that the reference price effect can be best explained by the weighed average of the target price’s relative distance to the extreme prices and its rank in the given price set (e.g., the 3rd or 5th expensive option among all the prices presented).

While the past research focuses on competing these models in terms of their fit to the actual price evaluation, little attention has been directed to identifying the moderating factors that influence their relative performance. We put forth that which price model will apply depends on the type of decisions they are asked to make. This is due to the compatibility between the cognitive processing called for by different decision tasks and the process underlying the specific reference effects. Specifically, if the decision task promotes the use of quantitative processing, as in the case of price attractiveness rating (i.e., how much the brand is attractive), the range of the contextual prices will play a more important role. On the other hand, if the decision involves a qualitative processing, as in the case of deciding on whether or not to purchase the brand, the adaptation-level or the frequency effect will be more prominent. Further, we suggest which of the two accounts (AL vs. frequency) will prevail in the purchase decision task depends on the format in which context price information is presented.

These predictions are tested in three lab studies. In all studies, the average (i.e., AL), the highest and lowest prices (i.e., range) of the context price distribution, and the ordinal rank of the target (i.e., frequency) within the list of contextual prices are systematically and independently manipulated across experimental conditions. In study 1 and 2, participants are asked to view a list of prices of other brands in the same product category and then presented with a target brand with price information alone. Subsequently, they are asked to make a judgment about the target brand. The type of judgment differs depending on the assigned condition. There are three different judgment conditions; product attractiveness rating, purchase intention rating, and binary purchase (buy or not buy) decision conditions. In the product attractiveness rating condition, participants are asked to rate the target brand in terms of their attractiveness on a seven-point scale anchored by “not at all attractive” and “very attractive.” In the purchase intention condition, participants rate their likelihood of purchasing the target brand using the seven-point scale anchored by “not at all likely to purchase” and “very likely to purchase.” Lastly, in the binary purchase decision condition, participants make a choice of whether or not to purchase the target brand using a dichotomous scale (i.e., yes or no).

The findings from the three studies support our hypotheses. Consistent with our predictions, study 1 results show that, in the attractiveness rating condition, manipulation of the lowest and the highest context prices (i.e., the range) has a significant impact while both the changes in the average price and the ranking of the target price do not have any significant impact. In contrast, in both, the purchase intention rating and the binary purchase decision conditions, only the rank order of the target has a significant effect on participant’s judgment. Neither the range nor AL has any impact on both purchase decision tasks.

Study 2 examines the condition under which the AL model over the frequency model applies to the purchase decision outcome. The study procedure was similar to that of study 1 except that we reduced the number of context prices from 10 to 6 and the reference prices are presented in a random, instead of an ascending, order. In line with our expectation, we found the AL (vs. frequency) model better accounts for judgments regarding both purchase intention rating and binary purchase decision.

In study 3 we replicate our findings in a more realistic consumer decision setting where other product attribute information, in addition to the price information, is also available. The range, average, and the skewness of the price distribution vary across two task conditions; attractiveness rating and purchase willingness rating. The results are consistent with the study 1 and 2. In the brand attractiveness rating condition, target price’s relative proximity to the extreme prices has the stronger impact on the evaluation. However, in the purchase willingness rating condition, the frequency and the average model provide better fit to the actual evaluation outcome than the range account.

In conclusion, our research extends the existing literature on reference price effect by identifying the important moderating factor determining the relative performance of different price models. We believe that current research enriches our knowledge about the processing underlying the consumer price perception and judgments.

References
