The Influences of Price Dispersion and the Manufacturer’S Suggested Price on Consumers’ Boundaries of Acceptable Price: Expected Price As a Mediator

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The phenomenon of price dispersion is often seen on the market; oftentimes, the manufacturer’s suggested price (MSP) is used to stabilize the negative effects of this price dispersion. The results of a 2 × 2 × 2 between-subject experiment design indicate that price dispersion and the MSP influences the boundaries of the expected price. The boundaries of the expected price then fully mediate the effects of price dispersion and the MSP on the boundaries of the acceptable price. However, the effects differ by boundaries. The lower boundary of the expected price mediates the effect of price dispersion on the lower boundary of the acceptable price. In contrast, both boundaries of the expected price mediate the effect of the MSP on the upper boundary of the acceptable price.

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Keeping up with the Joneses (or in this case, the Jhas)
Participant’s homes are surrounded by... both upper and lower boundaries. Based on the assimilation effect (Sherif and Hovland 1961), one can further predict...

References

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Price dispersion is defined as the price variability across stores for a specific brand or product (Grewal and Marmorstein 1994; Pan, Ratchford and Shankar, 2004; Stigler 1961; Urbany 1986). The effect of price dispersion on the consumer’s internal reference price is most concerned of manufacturers. Therefore, many manufacturers use the suggested price on the package of a product or in advertising to prevent retailers from excessive mark ups or to counteract the negative impact of unexpected retailing prices. The manufacturer’s suggested price (MSP) as an anchor may assimilate the expected price under high price dispersion as well as the acceptable price. The boundaries of the expected price and the acceptable price are important for the consumer’s price judgment and purchase decision. However, the effect of price dispersion and the MSP on the consumer’s expected and acceptable prices are still unknown. Besides, the MSP of a prestige or an inferior brand may have differing impacts. The purpose of this study was to investigate the joint effects of price dispersion, the MSP, and the brand image on the expected price. Furthermore, the research demonstrated how the expected price mediated their effects on the acceptable price.

In this study, high price dispersion was defined as the market price range of a product that exceeded the consumer’s acceptable price range of that product category. The manipulation of price range for high price dispersion represented the noticeable price difference for consumers. Also, the highest market price was higher and the lowest market price was lower than those under low price dispersion. Past market prices and contextual factors that consumers encounter in their purchase experiences shape their price expectations (Jacobson and Obermiller 1990; Kalwani et al. 1990; Kopalle and Lindsey-Mullikin, 2003). Therefore, the boundaries of the expected price cannot avoid being influenced by the range effect from price dispersion (as predicted by Range Theory) and the anchoring effect of the MSP. The extreme range of the high price dispersion is expected to enlarge the distance of both boundaries of the expected price, while the MSP is expected to raise both upper and lower boundaries. Based on the assimilation effect (Sherif and Hovland 1961), one can further predict...
that the upper boundary of the acceptable price will be assimilated toward the anchor value of the MSP, but not the price dispersion. In contrast, the lower boundary of the acceptable price should be assimilated toward the low market prices of high price dispersion. Both effects are expected to work via the boundaries of expected price as mediators.

The expected price corresponds to the cognition of a product’s market prices and contributes to the construction of an acceptable price. The expected price is also found to influence the width of the acceptable price (Kalyanaram and Little 1994). Therefore, the mediating effect of the expected price was further hypothesized. This study expected that the lower boundary of the expected price might mediate the effect of price dispersion on the lower boundary of the acceptable price, while the effect of the MSP on the upper boundary of the acceptable price was mediated by the upper boundary of the expected price. In addition, the MSP is closely linked to a manufacturer’s reputation and the brand image. Brand image is found to influence the consumer’s internal reference price (Grewal et al. 1998). A prestige brand helps to raise the internal reference price more effectively than an inferior brand. The interaction of brand image, the MSP and price dispersion on the range of the acceptable price was included in this research.

The main study employed a 2 (price dispersion: high or low) x 2 (MSP: with MSP or without MSP) x 2 (brand image: prestige or inferior) between-subject experimental design. Three pretests were conducted to decide the focal product category, representative brands, and price range. In pretest 1, 2-liter milk was selected from a list of consumer products. Two real brands, i.e., the representatives of the prestige and inferior brands, were chosen based on respondents’ overall impression and quality evaluation. In addition, the operational definition of price dispersion was the difference between the highest and lowest prices across retailers on the market at a given point of time. The levels of the manipulation of price dispersion were decided in Pretest 2 and 3. The ranges of high/low price dispersion were manipulated beyond/within the range of acceptable prices that were acquired from the results of Pretest 2. In the main study, the price stimulus was disguised by a one-page fictitious excerpt from Consumer Reports in which the main topic was the quality and price survey of major milk brands on the market. A matrix of seven retailer outlets and five major milk brands (including either the prestige or the inferior brand with four other real median level major brands on the market) was presented. A total of 207 undergraduate students participated in this experiment.

The results indicated a hierarchical relationship between price dispersion, the MSP, the boundaries of the expected, and then the acceptable prices. Price dispersion and MSP influenced both boundaries of the expected price. Price dispersion lowered the lower boundary of the expected price while the MSP raised the upper boundary of the expected price. Also, the lower boundary of the expected price fully mediated the effect of price dispersion on the lower boundary of the acceptable price. In contrast, both boundaries of the expected price fully mediated the effect of the MSP on the upper boundary of the acceptable price. In Lichtenstein and Bearden’s (1989) scale of internal price standards, the range of the acceptable price was restricted in that of the expected price and was biased toward the direction of lower prices. The findings of the current study corresponded to their works that the upper boundary of the acceptable price was mediated by the lower boundary of the expected price. Furthermore, for the prestige brand, the range of an acceptable price was higher than the inferior brand when the price dispersion was high. This study explored the mechanism, during which the boundaries of acceptable prices were influenced by the negative impact of high price dispersion and the counterbalance effect of the MSP. The results of this study also provided manufacturers a strategic perspective of employing MSP to shape consumers’ price perceptions.

References


