Little research has examined the effects of ‘locally made’ appeals on price perceptions. Based on cue-consistency and information integration theory, we find in two studies that motivated participants have higher willingness to pay, when the target is locally made rather than ‘USA made’, and also perceive a ‘locally made’ target to be less expensive under certain conditions.

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the exact discount. The price, after applying the minimum discount, is then assumed to be satisfactory. This judgment is informed by consumers’ internal and external reference prices: their expectations of what the price should be. Assuming that prices have not been increased to compensate for discounts, a consumer’s reference price may very well be similar to the regular price, or base price (without any discount applied) in the SAS deal. It is intuitive, then, that the price can be satisfactory with little or no discount. But consumers will also have internal and external reference discounts, and it is important to distinguish between reference discounts and reference prices. For the sake of brevity, this study does not discuss the multitude of influences that can affect a consumer’s internal and external reference price. Instead, the reference discount is under examination: particularly the external reference discount. While the resulting price from the SAS deal may be satisfactory, consumers may be unsatisfied if they regard the discount as unfair.

The fairness literature makes frequent reference to distributive fairness (the equal balance of inputs and outputs in a transaction) and the dual entitlement principle (stating that sellers are entitled to a fair profit). A high discount, then, may be considered unfair because consumers are giving too little and receiving too much. Recent fairness studies, however, show that consumers do not perceive fairness objectively: they tend to report fairness in an egotistical manner (e.g., Maxwell, Nye and Maxwell, 1999). A result that is not in their favor is regarded as unfair, while an outcome to their advantage is regarded as “fair,” regardless of the seller’s outputs. Meanwhile, a consumer’s inputs, even in a retail transaction, are not necessarily monetary; consumers may invest trust in the offer. Despite receiving a guaranteed discount, they could feel that the discount (particularly one below the reference discount) is too low, weighed against their expectation of a higher discount (meeting or exceeding the reference discount). For this reason, perhaps, consumers may consider their own outcome as unfair, despite getting a deal and clearly receiving a benefit compared to the seller.

The studies herein establish consumers’ subjective, egocentric approach to fairness, and also find that unfairness and fairness perceptions operate according to the Prospect Theory: the loss function is steeper than the gain function (Thaler, 1985; Kahneman & Tversky, 1979), or perceptions of unfairness are more severe than those of fairness. Participants report the negative outcome of low discounts (inequality in the seller’s favor) as severely unfair, but report the positive outcome of high discounts (inequality in their own favor) as only minimally fair. Even when the deviation from the average savings is equal (i.e., plus or minus 5%), consumers’ evaluation of unfairness is unequal, being more sensitive to their losses than their gains.

These studies also collect participants’ affective, satisfaction and post purchase responses to positive and negative outcomes. As expected, the level of perceived unfairness increases the magnitude of emotional responses such as anger, happiness, surprise and perceptions of exploitation and obligation. These responses are measured in addition to satisfaction because SAS discounts offer a unique situation in which discount inequality exists for the same item being purchased by different customers. Resulting affective reactions based on perceptions of unfairness, therefore, may sully an otherwise satisfactory price. Furthermore, the level of perceived unfairness influences post-purchase behavior, particularly the possibility of returning an item and repurchasing it. Dissatisfaction with the outcome of a purchase may encourage consumers to make a gamble by repurchasing an item in hopes of scratching a greater discount.

This paper continues research concerning fairness, affect and satisfaction. It extends research on (un)fairness to the new “Scratch and Save” form of discount, in which (un)fairness is a prominent concern in due to the discount’s variable outcomes between customers.

References

Do “Locally Made” Products Affect Price Perceptions? Not Always
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Consumers often use an array of extrinsic and intrinsic attributes to infer product quality and to assess intentions to pay. Though an intrinsic attribute normally dominates extrinsic cues when formulating evaluations because it is deemed more useful, such intrinsic information is often scarce, not useful or consumers might have little opportunity to process it (Miyazaki, Grewal and Goodstein 2005). Hence it is not surprising that extrinsic cues are more often used to make product decisions. Though research suggests positive relationships between a positive country-of-origin and perceptions of product quality, the literature reveals little about how and if consumers would use cues like country-of-origin (e.g., made in USA) differently than a region-of-origin cue like “locally made” when evaluating a product. Furthermore, since consumers when making purchases integrate inferences about product quality derived from an extrinsic cue with assessments of monetary sacrifice derived from another extrinsic cue, price, an intriguing question remains as to how consumers will integrate information from two cues, price and region-of-origin, to form product assessments. Though Miyazaki, Grewal and Goodstein (2005) concluded that consumers form stronger price-quality associations in the presence of consistent pairing between the price and other cues to product quality research is elusive as to how a dual cue like price which provides inferences about
not only quality but also monetary sacrifice will be integrated with inferences from region-of-origin when determining product quality and also willingness to pay for such products.

Following Krishnan, Biswas and Netemeyer (2006) it is argued that compared to a national origin, a local region-of-origin will be perceived as a more relevant and a concrete extrinsic cue making such cues less ambiguous and more effective in reducing additional search for quality information. We also use insights from cue-consistency theory (Maheswaran and Chaiken 1991) and information integration approaches to suggest that region-of-origin will be integrated with price cues to form perceptions of quality when both are positive. Furthermore since integration of information requires cognitive resources it is predicted that an enhanced impact of region-of-origin cue on product evaluations would be observed when consumers are otherwise motivated to process information. Consequently when motivated to process information, consumers would be willing to pay a higher price for a locally made product while there would be no difference between the region-of-origin and country-of-origin cues on consumers’ willingness to pay when motivation to process information is otherwise low.

In two studies we collect initial information on whether a region-of-origin cue affects consumers’ willingness to pay for products differently than a country-of-origin cue. Study 1 assessed the proposition directly by measuring consumers’ price acceptability limits and price they expected to pay for locally made office furniture. Participants (105 undergraduate students) randomly assigned to a 2(motivation: low vs. high) x 2 (product origin: local vs. national) between subjects design read a scenario manipulating their purchasing goals (or lack thereof) for the target product before indicating their price acceptability limits. Results revealed that motivated participants had significantly higher willingness when the target was associated with region-of-origin information than “made in USA.” In low motivation conditions, there was however no difference between these two cues on participant’s willingness to pay for the target product.

Study 2 further assessed the evaluation of a relatively high price target. To assess participant’s integration of information from multiple extrinsic cues to quality, past consumers’ product quality reviews for this product were included. Study design and execution was similar to study 1 but with an additional variable of quality reviews (superior vs. inferior) for the target product. Perceptions of product quality and monetary sacrifice for the target product along with individual difference measures of regional attachment and price sensitivity were collected. Results were interesting and revealed that motivated participants perceived this high price target that was “locally made” to be less expensive than the one with “made in USA” provided that the target accompanied superior product quality reviews. Interestingly in low motivation conditions, participants perceived the target with the national origin and superior product reviews as less expensive than that with regional credentials. The cognitive response further revealed an enhanced depth of processing was associated with the region-of-origin cue in high motivation conditions but with heuristic processing of quality reviews and the country-of-origin cue in low motivation conditions.

Though research suggests that for agricultural commodities state-level appeals enhance consumer willingness to pay (Govindasamy et al. 2000), little marketing research has examined the effects of such “buy local” campaigns on price perceptions for other manufactured non-agrarian products (e.g., Noble et al 2006). The initial evidence from this research suggests interesting effects of locally made products on consumers’ price perceptions. While it may be assumed that a cue like region-of-origin is likely to affect product evaluations in a manner similar to the country-of-origin, we argue that the concreteness and relevance of a regional cue will have a more positive effect on consumers’ price perceptions for consumers motivated to process information. These results also add to our understanding of how integration of multiple cues will be impacted by consumers’ processing goals extending our current understanding of the impact of multiple cues on price perceptions.

Selected References

Effects of Sorting Competitive Prices on Product Evaluations
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Online shopping has not only increased the availability of information to consumers but also resulted in an increased reliance on electronic decision aids that assist shoppers in organizing information. Decision aids that arrange products on utility have been shown to influence overall evaluations of the sorted set of alternatives (Diehl and Zauberman 2005) and also consumers’ choice quality (Haubl and Trifts 2000). Though this research used customers’ expected utility to create sorted sets of alternatives, several online retailers are likely to provide decision aids that simply arrange alternatives on attributes like price. Furthermore, brick and mortar retailers might not