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## **The Psychology of Trade-Ins in Point-Of-Purchase Decisions: Consumer Price Perceptions When Playing the Dual Role of a Buyer and a Seller**

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In many transactions that are naturally related or occur together in time, consumers' point-of-purchase decisions are influenced by their dual roles of buyer and seller (i.e., buying a new car and selling the old one). For such transactions, marketers have a variety of options in which to price and present the overall exchange. This research examines how the pricing of the component transactions influence evaluations and choice, holding net price constant. Because evaluations and choices of otherwise equivalent transactions vary by how component prices are presented, the findings have important theoretical, managerial, and consumer welfare implications.

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## SYMPOSIA SUMMARY

### New Insights in Consumer Point-of-Purchase Decision Making

Ryan Hamilton, Northwestern University, USA

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#### SESSION OVERVIEW

Many consumer purchases are not the result of extensive pre-planning, but are instead a function of decisions made at the point of purchase. It is hard to overestimate the importance of point-of-purchase decision making, both in terms of frequency—making these decisions, in some ways, prototypical of consumer decision making—and in terms of dollars spent. Despite its importance, there has been paucity of research on factors that influence consumer decision making at the point-of purchase.

The papers in this symposium use multiple research methods to provide new insights into the consumer point-of-purchase decision-making process. The goal of this session is to provide insights into consumer decisions made at the point of purchase by examining the three most prominent aspects of these decisions: deciding whether to make a purchase from a given category, deciding which option from the category to select, and deciding whether to purchase the selected option at the offered price.

Research by Inman, Winer and Ferraro examines the first aspect of point-of-purchase decision making: choosing whether or not to make a purchase from a category. In particular, they use a hierarchical modeling approach, using a dataset of 2,800 in-store consumer intercept interviews conducted in 14 cities, to explore product category factors and customer characteristics that affect the likelihood of engaging in unplanned purchases at the category level.

Next, research by Srivastava and Chakravarti examines the influence of consumer roles on the option-selection stage of consumers' point-of-purchase decisions. In many transactions, consumers' purchase decisions are influenced by their dual roles of buyer and seller (i.e., buying a new car and selling the old one). This research examines how the role a consumer plays influences evaluations and choice at the point-of-purchase.

Finally, research by Hamilton and Chernev investigates retailer price image as a driver of the third aspect of point-of-purchase decision making: whether or not to buy a selected offering at a given price. This research examines price image formation by investigating consumer reactions to changes in the retailer's product line, such as adding an upscale or down scale extension, and how these changes impact consumer decision making.

After the presentation of the research papers, discussion was facilitated by Tom Meyvis.

#### EXTENDED ABSTRACTS

##### **“The Interplay between Category Factors, Customer Characteristics, and Customer Activities in Point-of-Purchase Decision Making”**

*Jeff Inman, University of Pittsburgh*

*Russell Winer, New York University*

*Rosellina Ferraro, University of Maryland*

Consumers often enter the grocery store with a set of purchases already in mind, but they often leave the store with a number of unplanned purchases. Inside the store, consumers are confronted with an environment of colorful displays of fruits or flowers, perfectly aligned packages of snacks on endcap displays, and even advertisements covering the floor. These are a few examples of the

in-store stimuli that may trigger unrecognized needs and desires or trigger memory for forgotten needs. These in-store stimuli serve as a mechanism for need recognition and may lead to unplanned purchasing, or in other words, point-of-purchase decision-making.

Any given item in a shoppers' grocery basket may have been planned to the level of the brand, to the level of the category, or not at all planned. According to the Point-of-Purchase Advertising Institute (POPPI), over two-thirds of purchase decisions involve some sort of in-store decision-making. Manufacturers spent \$18.4 billion dollars in 2004 on in-store marketing and promotion. These efforts are assumed to be effective because they have their influence at the last stage of the choice process – at the point of purchase.

The current research explores the factors driving the extent to which consumers engage in in-store decision-making. While prior research has examined various factors independently influencing in-store decision-making, we present a more comprehensive framework incorporating the product category factors, customer characteristics, and customer activities that affect this type of decision-making. We argue that these factors operate via increasing exposure or affective responding.

First, to have any impact, in-store stimuli require the shopper's attention. That is, shoppers must come into contact with and be exposed to stimuli for there to be any chance of need recognition. Therefore, factors that increase or decrease exposure to stimuli impact the level of in-store decision-making. Second, consumers often buy as a consequence of emotional arousal. Therefore, any factors that trigger affective reactions to products will increase the extent to which consumers engage in in-store decision making. We examine the role of four product category factors in increasing exposure or affective responding: coupon usage, in-store displays, category purchase frequency, and the hedonic nature of the category. Additionally, aspects of the customers themselves may also increase or inhibit in-store need recognition. We examine the role of four customer characteristics in this regard: gender, household size, store familiarity, and shopping alone versus with others.

Furthermore, we examine whether certain customer activities limit the number of in-store decisions. We argue that consumers are aware that they sometimes make unplanned purchases which may satisfy current needs but are detrimental in the long-term. Therefore, consumers initiate activities that limit in-store decision making in order to limit purchasing items they do not need, spending more money than they have allocated, or buying products that are not nutritionally healthy. These activities are use of a shopping list, number of aisles shopped, shopping frequency, time spent shopping, and method of payment.

To test the proposed model, we utilize data provided by POPPI, an association for the point-of-purchase advertising industry. POPPI periodically conducts an extensive field study of consumers' purchasing behavior. In-store intercept interviews were conducted with 2800 consumers (over 40,000 purchases) at grocery stores in fourteen geographically dispersed U.S. cities.

The results are generally consistent with expectations. Coupon use was associated with a lower probability of unplanned purchase. However, items that were on display, items with longer interpurchase cycles, and hedonic categories were associated with greater in-store decision making. Also as predicted, in-store deci-

sion-making was impacted by the customer characteristics examined. Females tended to make more unplanned purchases than did males. As household size increased so did the likelihood of making unplanned purchases. Additionally, shoppers that were accompanied by others were more likely to make unplanned purchases and greater familiarity with the store also increased unplanned purchases.

We expected that customer initiated activities would lead to a decreased likelihood of making unplanned purchases. Our findings offer useful, easy-to-enact strategies for consumers who are interested in curtailing unplanned purchases (e.g., impulsive consumers). First, consumers should use a list because it dampens unplanned purchases. Second, consumers should try to make more frequent, fewer-item trips. This helps focus the shopper on getting in, getting only the items s/he came for, and getting out. Third, consumers should limit browsing. Visiting all aisles increases exposure to stimuli and increases unplanned purchasing. Fourth, consumers should limit the amount of time spent in the store. Limiting time forces the consumer to focus on the task at hand. Finally, consumers should make the decision to pay by cash before entering the store. Paying by credit (and to a lesser extent, by check) decouples the “pain of paying” from the purchase and makes it easier to engage in unplanned purchasing.

**“The Psychology of Trade-Ins in Point-of-Purchase Decisions: Consumer Price Perceptions when Playing the Dual Role of a Buyer and a Seller”**

*Joydeep Srivastava, University of Maryland  
Dipankar Chakravarti, University of Colorado*

In making point-of-purchase decisions, consumers are often confronted with transactions that are naturally related or occur together in time. For example, new car purchases are often made in conjunction with the trade-in of an older car and a vacation involves the purchase of air-ticket and lodging. In such situations, marketers have various options in how to price and present the overall transaction. For example, a car dealer has the option to treat the purchase of a new car and the trading-in of the old car as separate transactions with different price tags or as a bundled (consolidated) transaction where the overall transaction is presented under a single price tag. The manner in which the overall transaction is priced can significantly alter consumer perceptions.

Even when the transaction is presented under separate price tags, a car dealer may create different gain (loss) scenarios from the same net transaction. To the extent that reference prices are available for both transactions, the manner in which the component transactions are priced could lead to different representations of the separate transactions and hence the overall exchange episode. For example, a car dealer can choose to provide a good deal on the new car but a poor deal on the trade-in. Alternatively, the dealer can provide a good deal on the trade-in and a poor deal on the new car, or the dealer could provide moderately good deals on both the new car and the trade-in, while maintaining the same net dollar amount for the overall transaction. Although marketers can implement these different price presentations relatively easily, there is little systematic research on the effects of such price presentation on consumers.

This research examines how variations in the price presentation of transaction bundle affect consumer perceptions. While economic theory would predict no differences in consumer preferences across the different price presentations, the mental accounting principle of segregate the gains would suggest that consumers are likely to prefer the overall transaction where the dealer provides moderately good deals on both the new car and the trade-in. Alternatively, consumers may be more sensitive to the price of the

new car as that is the focal transaction or consumers may be more sensitive to the price of the trade-in because of the general inclination to demand more for giving up something they own (endowment).

This paper reports the results of three studies that examine consumer preferences for transaction bundles as a function of price presentation. Using a scenario involving the purchase of a new car along with the trade-in of an old car, study 1 had six conditions, all with a separate price for the new car and a separate price for the trade-in. In all conditions, reference prices were provided for the new car and the trade-in such that the overall transaction would always result in a gain. The six conditions varied how the net total price was split across the new car and the trade-in. For example, in the conditions where there was a gain on one component and loss on other, the price of the new car was \$15,000 and the trade-in value was \$4,000 whereas in the related condition, the new car price was \$18,000 and the trade-in value was \$7,000. The results of study 1 (n = 158) show the different price presentations systematically affected consumer perceptions. Specifically, in contrast to the principle of segregating the gains, consumers were more sensitive to the price of the new car. The overall transactions in which the price of the new car was relatively low were preferred to the transactions in which the price of the trade-in value was relatively high. These results suggest that consumer preferences for overall transactions are affected by how the component transactions are priced.

Study 2 then adds a consolidated condition where the overall transaction is presented under a single price tag to the six conditions used in study 1 and also examines how consumer attachment (involvement) with the trade-in affects preferences for the different transactions. The results (n = 296) replicate the findings of study 1 in the low attachment condition. However, when consumers are trading-in a car that they were attached to, they prefer the overall transactions where the price of the trade-in is relatively high. In addition, the consolidated price presentation is uniformly preferred to the segregated price presentation in the high attachment condition but not in the low attachment condition. Study 3 replicates these findings in a choice study. Together the findings of the three studies show that consumers are differentially price sensitive to the component transactions and that this price sensitivity is malleable. The findings have both theoretical and managerial implications.

**“Price Image Formation and Point-of-Purchase Consumer Decision Making”**

*Ryan Hamilton, Northwestern University  
Alexander Chernev, Northwestern University*

One of the factors that influences consumers’ point-of-purchase decisions is price image, the overall impression consumers form of the prices at a given retailer. Despite the importance of price image to marketing theory and practice, there has been relatively little investigation into the factors that influence its formation, antecedents, and consequences. Price image is important to consumer behavior researchers because it plays a key role in at least two types of consumer decisions. First, because price image can affect consumers’ reference prices, it can influence the point-of-purchase decision of whether or not to buy a selected offering at a given price. Second, because price image is one of the factors that can determine the overall attractiveness of a retailer, it is also likely to influence consumers’ decisions of where to shop. Thus, high price image can lead consumers to expect that there is a better price for comparable merchandise, and consequently, that they should shop elsewhere.

In this research, we draw on theories from psychology and decision-making to better understand the formation of price image by investigating consumer reactions to changes in the retailer’s

product line. Although retailers tend to price the items they carry within a range that will appeal to the store's core segment of consumers, it is also common for retailers to season these narrowly-priced assortments with a handful of vertical extensions: products from a higher or lower price tier. For example, Best Buy, a retailer whose very name projects a low price image, has added the high price, high quality Magnolia home theater line to complement its other audio/visual entertainment products. Likewise, grocery chains that are positioned as high-priced, premium service providers will often still carry a few inexpensive, private label items in addition to higher priced national and specialty brands.

Conventional wisdom predicts that a vertical extension would push the price image in the same direction (e.g., adding a downscale extension would lower a store's price image). We argue, however, that the impact of vertical extensions on price image is a function of the way consumers process the available information. In this context, we identify conditions in which a vertical extension can move the price image in the opposite direction, such that adding a downscale extension can actually raise a retailer's price image and adding an upscale extension can lower its price image.

To illustrate, imagine a consumer standing in front of a display of cordless phones. Most of the prices are fairly similar, but there is one downscale model with a substantially lower price. The consumer takes into account all of the available options and she forms a price image. Now picture a different consumer standing in front of the same display. After looking over the available options, this consumer selects a phone he would like to buy. He then evaluates the price of the option he selected in forming a price image.

The two consumers in this illustration exemplify two ways of evaluating information in forming a price image. The first consumer evaluated all of the available information in the set without focusing on any particular option. This type of non-focal evaluation would lead the consumer to assimilate the price of a vertical extension into an overall price image. In this context, the presence of the downscale phone would lead this consumer to form a relatively low price image of this store. The second consumer focused on a single option and contrasted it with the other alternatives. The presence of the downscale extension would make the phone he chose seem expensive. Based on his focal evaluation, this consumer would form a relatively high price image of the store.

We examine the impact of vertical extensions and evaluation type on price image, and thus, on consumer decision making, in a series of three experiments. In the first experiment, participants are encouraged to make either a focal or a non-focal evaluation of a set of options that includes either an upscale or a downscale extension. We use likelihood of purchasing a chosen option at a given price as a measure of price image: Participants were shown an additional item from a different category and asked whether they would purchase that item at a given price or defer choice to look for a better price elsewhere.

The second experiment demonstrates that these findings can impact choice among retailers as well as choice deferral. Participants were asked to choose between two hypothetical stores, one where they had previously made a focal evaluation, and one where they had previously made a non-focal evaluation. When faced with two stores that both carry an upscale extension, consumers will form a higher price image of the store where they made the non-focal impression than the store where they made the focal evaluation. In contrast, when faced with two stores that both carry a downscale extension, consumers will form a lower price image of the store where they made a non-focal evaluation than they would from the store where they made a focal evaluation.

Building on the findings of the first two studies, experiment 3 examines the impact of vertical extensions on price image by using

brand loyalty as a predictor of the type of evaluation a consumer is likely to engage in. Thus, consumers that are loyal to a particular brand will tend to focus on that brand, comparing its price with the other prices in the set when forming a price image. Consumers that are not loyal to any brand, on the other hand, will tend to make more non-focal evaluations in forming a price image. We find that when given a choice between two retailers, one of which has upscale extensions and one of which has downscale extensions, brand-loyal consumers overwhelmingly prefer the store with upscale extensions, whereas consumers that are not brand-loyal prefer the store with downscale extensions.