THE PRICE IS RIGHT! OR IS IT?

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ABSTRACT

Consumers are bombarded with information about different products being offered at different ‘sales’ or ‘special deals.’ Many retailing firms use price as a major differentiating factor to set themselves apart from other merchandisers, but with the glut of differently priced products in the market, it may not help much if the consumers are unable to assimilate and recall the information.

This study examines the effect of numerous retailers offering similar products at different prices and the consumer’s ability to recall and pick the best ‘value’ deal. It builds on previous research by Jacoby, Speller & Kohn(1974), Scammon(1974) and Malhotra(1982). All these studies accepted that there are finite limits to a person’s attentional resources. Most researchers investigated the effects of information load on consumer decision making by product attributes and alternatives as measures of information. However, there has not been much work which looks at price as a measure of information. I hope to fill this gap with this paper. This study puts forward the hypothesis that different prices by different merchandising firms for the same product will eventually lead to an information overload leading to consumer confusion by adding to the finite amount of information that a consumer can process. After a certain point, the consumer is unable to recall which seller is offering the best value and the probability of his/her making a utility maximizing purchase decision follows a parabolic curve. That is, at first, increasing the choice set presents the consumer with more options and increases her likelihood of finding a better deal. But as the choice set expands to a level where it takes up more of attentional resources than the consumer is willing to allocate to the purchase decision, (s)he may tune off and stop absorbing further information to try to reduce the information overload.

This effect will be more prominent in the case of lower involvement products than in the case of higher involvement products. In case of the high involvement products, the consumer will be more likely to postpone the purchase decision than carrying out the purchase in a state of confusion. This is because high involvement products are typically expensive, reflect on one’s self-image and/or have serious personal consequences. Since there is more at stake in case of higher involvement products, this study predicts that even though the confusion created by increasing number of sources involved in promotion for a product may be comparable for all types of purchases, consumers will be more likely to carry out the purchase even in their state of confusion in case of a lower involvement purchase than in case of the higher involvement purchase.
Another effect of the information overload will be reduced confidence from the purchase, since the consumer will be left wondering if his/her purchase was actually the value optimizing deal or if there is another retailer selling the desired product at a still lower price. Since confidence in the purchase decision reduces the perceived risk of the transaction, reduced confidence leads to a state of increased confusion and decreased satisfaction from the purchase.
These hypotheses draw from theory explaining confusion and consumer confusion. One of the sources of consumer confusion is overchoice. Mitchell and Papavassiliou proposed that some of the ways consumers deal with confusion is by doing nothing, postponing or abandoning the purchase. Therefore, if more information does not increase confidence levels and leads to an overload, eventually, confusion could set in which could be followed by a decision of ‘no-buy’ or ‘purchase postponement’ which is the reverse of what the marketing efforts of different firms aim for. This happens when the consumer’s confidence falls below a minimally acceptable threshold and she decides that no choice is better than a wrong choice which delivers less than the value expected.

This is highly significant for managers and academicians alike since pricing has been considered an important differentiating factor between different merchandisers. This study attempts to determine if pricing may be losing its significance as a differentiator since the marketplace is overloaded with too many merchandisers offering products at too many varying prices. Even worse, by causing potential buyers to postpone or even abandon their purchase plans, multiple prices may be driving some consumers out of the marketplace. Therefore the implications of this study are clear: retailers need to consider other variables in the marketing mix too to make an impact instead of simply relying on a mantra of lowest price.

References available upon request

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