

Editorial

# Retail Value-Based Pricing Strategies: New Times, New Technologies, New Consumers<sup>☆</sup>

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## Abstract

The global marketplace is continually shaped by changing realities, including the recent economic downturn and ever-increasing adoption of new technologies. The results of these changing realities affect every element of consumers' shopping behavior, as well as their value perceptions. This article examines how recent changes in the environment and technology have spurred changes in how consumers perceive value, as well as in how retailers communicate their value offers. Furthermore, this introductory article highlights how the 14 contributions in this special issue of the *Journal of Retailing* on pricing relate to these areas of change.

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In the face of radical changes to the global marketplace—a worldwide recession, significant technological turbulence, and so on—consumers change not only their shopping behaviors but also their value perceptions. To respond appropriately, savvy retailers must monitor the environment to identify changes, both expected and unexpected, in the marketplace. By monitoring their environment and harnessing technological advances, retailers can (1) remain more in touch with consumer preferences, (2) take advantage of opportunities created by new consumer preferences, and (3) enhance the value they offer to consumers. These retailers are willing and able to redefine their businesses to respond to the new realities of the marketplace.

Consider in particular the effects of the economic downturn. Consumers are more price conscious and likely to cherry pick the best deals. In turn, retailers seek out ways to compete through pricing tactics and provide the deals that offer the most value to consumers. On Black Friday for example, many retailers offer radical deals on popular items to create publicity, encourage traffic into the store, and increase the sales of other items on their shelves. One Macy's customer who intended to spend \$20

on a promoted microwave oven wound up spending well over \$300 on a variety of other goods (Mattioli 2011).

Consumer shopping patterns also have changed as a result of the recession, such that some consumers consolidate their shopping to save on gas or shipping charges. Brick-and-mortar retailers focused intently on developing locations that encourage “one-stop shopping” and provide a plethora of categories, some of which have not traditionally appeared in the specific retail format. For example, convenience and drug stores are experimenting with fresh produce. Big box retailers such as Home Depot, Staples, and Walmart, which traditionally located in less expensive suburban locations, are opening smaller stores in urban locations. And online retailers are encouraging customers to purchase more by promising free shipping, as long as the sales reach a minimum dollar requirement. Finally, the loss of disposable income is shifting consumer preferences for retail formats, creating more opportunities for supercenters and club stores but threatening smaller retailers (Ma et al. 2011; Talukdar, Gauri, and Grewal 2010).

In addition to economic changes, the modern environment hosts technological changes in the form of explosive growth of social media and mobile web-enabled devices. These developments also influence all aspects of consumers' experiences, from how they search for goods, to how they pay for them, to how they tell others about them. Mobile phones and their related applications (apps) have made consumers more aware of price promotions, because they can check the prices of a given

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stockkeeping unit (SKU) even while they are still shopping in the store. Social networks such as Facebook also make information sharing and group buying opportunities nearly seamless. Product reviews even commonly appear on Facebook. That is, technological changes affect both the benefit side (e.g., instant access to product information, such as reviews) and the cost side (e.g., lower search costs, lower prices) of the value equation.

Social media and mobile web-enabled devices represent only some of the ways technology affects retailers. Other new technologies include the growth of digital displays in retail spaces, which draw consumers' attention to promoted items, and retailers' improving abilities to collect data to mine from the ever-growing trove of loyalty and scanner data. Technology allows retailers to gain a more refined understanding of customer reactions to pricing decisions through the use of sophisticated analytics that reflect these abundant loyalty and scanner data. Shrewd retailers thus actively manage their loyalty programs to offer more effective promotions. Some brick-and-mortar leaders in these domains include Kroger and CVS (Grewal, Levy, and Hackmann 2011). These retailers have harnessed the power of their vast loyalty programs and developed systematic analytical capabilities to develop targeted offers. Personalized offers are another way to enhance customer value and ultimately ensure customer loyalty to the retailer.

Moreover, changes to the way retailers store, access, and process consumer data and usage patterns have prompted the development of new retail business models. Some retailers have taken the trunk show notion online to establish flash sale formats (e.g., Gilt, Rue La La). Groupon and Living Social exploit the power of social media to provide consumers with deals, contingent on sufficient other consumers purchasing, which creates an inherent incentive to spread the word throughout a social network. Other business models adopt various forms of name your own prices or bidding mechanisms. These illustrative examples are by no means a comprehensive list of the new business models that have emerged to enhance customer value and that continue to evolve as a function of the changes in consumer behavior that are driven by both economic and technological shifts.

As this discussion thus illustrates, recent changes in the environment and technology have spurred changes in both the ways consumers perceive value and the tactics retailers are using to communicate value offers. In this article, we explore both areas and highlight how the fourteen contributions in this special issue of the *Journal of Retailing* on pricing relate to these areas.

### Organizing framework and research issues

This article is organized around three major components: changes in consumer behavior, driven by environmental changes and technological changes. We focus on how the two drivers initiate different consumer perceptions of value, as well as the growth of newer forms of value-based pricing models (see Fig. 1).

In discussing each of these areas, we draw from current trends, highlight how the articles in this special issue relate, and identify opportunities for further research. The fourteen contributions in this special issue use a host of outcome measures,

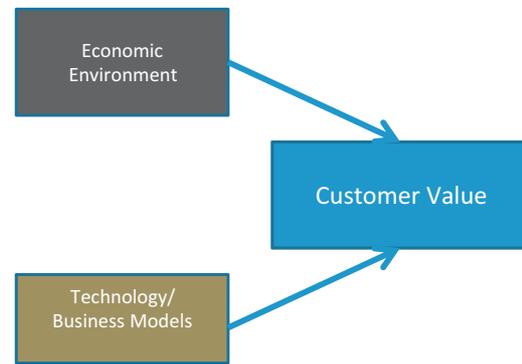


Fig. 1. Organizing framework.

which reflects the richness of the research stream; moreover, they employ a wide range of methodologies and bases for their data.

### *Impact of the economic environment on consumer behavior and business models*

The past few years have unleashed recessionary forces in the marketplace, not only in the United States but globally. Every day, consumers face the threatening possibilities of an imploding Euro, debt crises in various countries, deficit reduction failures in Congress, a historic housing slump, high unemployment figures, seemingly unending increases in gasoline prices, and great fluctuations in the stock market. The recent economic meltdown also has led to global fluctuations of market currencies; the major currencies see widespread fluctuations on an almost weekly basis. In this special issue, Raghurir, Morwitz, and Santana (2012) examine how consumers react to prices conveyed in multiple currencies, rather than just their local currency.

These recessionary forces also have unleashed profound uncertainty among consumers, who simultaneously are experiencing declines in their overall wealth and their disposable incomes. This unrest and weak economy provoke changes in consumer shopping patterns and consumption (Ma et al. 2011), with people striving for the very best values. Value—both acquisition and transaction value—drives both search and purchase intentions (Grewal, Monroe, and Krishnan 1998).

In this special issue, Pillai and Kumar (2012) expand on the concept of value to clarify the role of value consciousness and coupon proneness on pricing tactic persuasion knowledge (PTPK)—that is, the persuasion knowledge of consumers when it comes to marketers' pricing tactics. Their research indicates that consumers who are coupon prone focus more on peripheral cues and are likely to be less accurate or confident; they also have lower levels of PTPK calibration. Those who are value conscious instead engage in more explicit quality–price trade-offs, achieve greater accuracy, are confident, and have higher levels of PTPK calibration.

To further detail the role of deals and value in an increasingly price-conscious marketplace, Zhang, Seetharaman, and Narasimhan (2012) explore the effects of price promotions on price expectations, incidence, brand choice, and quantity decisions. They test the effectiveness of two competing

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