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Impact of promotions on shopper price comparisons

Velitchka D. Kaltcheva [a,*], Robert D. Winsor [a,1], Anthony Patino [a,2], Stewart Shapiro [b,3]

[a] Marketing, Loyola Marymount University, 1 LMU Drive, Los Angeles, CA 90045, United States
[b] Marketing, University of Delaware, 221 Alfred Lerner Hall, Newark, DE 19716, United States

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ABSTRACT

Retailers implementing the Hi–Lo or promotional-pricing strategy frequently offer temporary price promotions to attract customers to the store. For this strategy to be financially successful, however, the store must entice bargain seekers to purchase non-discounted merchandise. Because regular prices at Hi–Lo retailers, as a rule, substantially exceed those of EDLP competitors, customers engaging in price comparisons across stores may perceive that a Hi–Lo retailer's regular (non-discounted) prices are excessive relative to competitors' prices and therefore will be less likely to make purchases at the regular Hi price. Given the potentially harmful effects of across-store price comparisons for Hi–Lo retailers, this exploratory research examines whether some forms of price promotion may be relatively more effective at discouraging consumers from comparing a retailer's non-discounted prices to those at competing stores.

A common debate in retailing today concerns the relative effectiveness of Hi–Lo vs. EDLP ("everyday low pricing") strategies. Compared to EDLP retailers, who consistently maintain low prices, retailers implementing the more traditional Hi–Lo or promotional-pricing strategy establish higher regular prices but then frequently offer temporary price promotions on selected items—effectively reducing prices on these items to levels below those of EDLP competitors (Shankar & Bolton, 2004). Since Hi–Lo retailers are more likely to employ price promotions, these organizations must carefully consider the likely effects of price promotions on their customers' attitudes and behavior. Effective implementation of the Hi–Lo pricing strategy requires that retailers avoid excessive cannibalization of the sales of full-margin (regular-priced) merchandise when crafting the appeal of promotional discounts. Toward this goal, Hi–Lo retailers must develop promotional discounts that strike a delicate balance between enticing bargain seekers with assertions of enhanced consumer surplus without simultaneously prompting these or other shoppers to question the relative value provided by the non-discounted merchandise (Guimond, Chankon, & Laroche, 2001). In other words, the success of a Hi–Lo strategy largely depends upon deal seekers buying non-discounted merchandise rather than merely cherry-picking low-margin items offered on promotion (Hoch, Drèze, & Purk, 1994). Profits must accrue from these customers, otherwise the promotional appeal to them would be operationally unjustifiable.

In an application of Helson's (1964) adaptation-level theory, Sawyer and Dickson (1984) argue that price promotions initially entice consumers to purchase because individuals use the product's regular price as a reference and perceive the discounted price as a net gain. According to this understanding, perceptions of enhanced consumer surplus (upon which price promotions rely) can only result if shoppers are able to actively compare a product's discounted price to its regular price (Alford & Biswas, 2002). While this in-store price comparison may be fundamental to the Hi–Lo strategy, price comparisons across retailers are likely to yield more harmful effects to the Hi–Lo strategy. Because regular prices at Hi–Lo retailers as a rule substantially exceed those of EDLP competitors, customers engaging in price comparisons across stores may perceive that a Hi–Lo retailer's regular (non-discounted) prices are excessive in relation to those of competitors—potentially leading to the overall interpretation that the Hi–Lo store generally provides inferior levels of customer value. Those customers making across-store comparisons will therefore be less likely to purchase non-discounted merchandise at Hi–Lo retailers or may even be less inclined to patronize the Hi–Lo store altogether. Ideally then, Hi–Lo retailers must accommodate in-store price comparisons while concomitantly discouraging shoppers from making comparisons to competitors.

Given the potentially harmful effects of across-store price comparisons, this exploratory research examines whether some forms of price promotions may be relatively more effective at discouraging consumers from comparing a retailer's non-discounted prices to competitors' prices. In other words, the objective of this research is to identify forms of promotion that will result in more favorable customer evaluations of Hi–Lo retailers' regular prices

* Corresponding author. Tel.: +1 310 338 5166; fax: +1 310 338 3000.
E-mail addresses: vkaltche@lmu.edu (V.D. Kaltcheva), rwinsor@lmu.edu (R.D. Winsor), apatino2@lmu.edu (A. Patino), shapiros@lerner.udel.edu (S. Shapiro).
[1] Tel.: +1 310 338 7413; fax: +1 310 338 3000.
[2] Tel.: +1 310 338 5167; fax: +1 310 338 3000.
[3] Tel.: +1 302 831 2516; fax: +1 302 831 4196.

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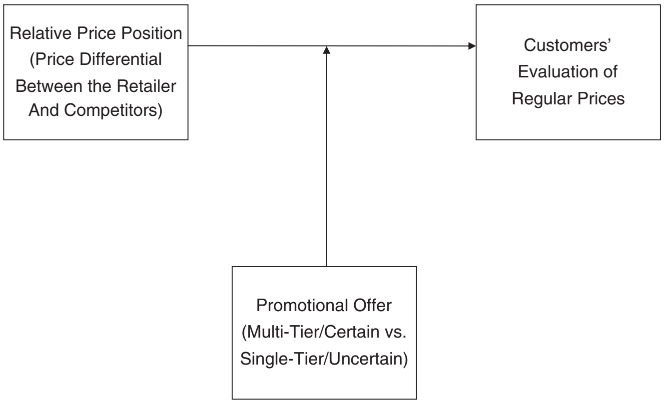

Fig. 1. Theoretical model.

(Fig. 1). The next section reviews research investigating the influence of price promotions on customers' price perceptions. Then the article advances hypotheses regarding the effects of two different forms of price promotion on shoppers' evaluations of the store's regular prices relative to competitors' prices and describes an experiment testing the hypotheses. The article concludes with a discussion of the limitations of this research, its implications for retailers, and directions for future research.

1. Literature review

Prior research shows that price promotions influence consumers' price expectations and price–quality inferences under certain conditions. Specifically, the recency and frequency (Kalwani & Kin-Yim, 1992), variability (Murthi, Haruvy, & Zhang, 2007), and intensity (depth) (Della Bitta & Monroe, 1980) of prior price promotions heavily influence shoppers' perceptions of the appropriate or reference price of a product. Frequent promotions, for example, dilute the perceived value of a brand, especially in the absence of a warranty. Consumers are likely to infer that the discounted selling price more accurately reflects the product's true relative value, and such unfavorable price–quality inferences are likely to diminish the attractiveness of the deal (Kalwani & Kin-Yim, 1992; Murthi et al., 2007). Raghubir and Corfman (1995, 1999) find a similar effect when one seller implements promotions while competing sellers do not.

Consumers' first impressions of the item's price also influence price expectations (Doob, Carlsmith, Freedman, Landauer, & Tom, 1969). Doob et al. (1969) show that introducing a product at a low price, and then raising the price to the regular level, results in an adverse effect on subsequent sales, since consumers perceive the introductory (discounted) price as the appropriate worth of the product. Research further shows that in the absence of reliable pricing information, consumers are likely to use the face value of dollars/cents-off discounts to form price expectations for new or infrequently purchased items, and for purchases in unfamiliar markets such as when on vacation (Barat & Paswan, 2005; Raghubir, 1998, 2004). In general, absent other information regarding regular prices, larger face values of discount offers lead consumers to infer correspondingly higher estimates of the item's regular price, thereby undermining the attractiveness of the deal (Barat & Paswan, 2005; Raghubir, 1998).

As a result of these influences on customers' price expectations and price–quality inferences, price promotions may have long-term adverse consequences upon brand choice and brand value (Kalwani & Kin-Yim, 1992; Kalwani, Kin-Yim, Rinne, & Sugita, 1990). Prior research, however, has not addressed a potentially damaging effect of price promotions for retailers implementing the Hi–Lo strategy—namely, that some price promotions may lead to customers' engaging in more price comparisons across stores and, as a result, to less favorable evaluations of the regular (non-discounted) prices at Hi–Lo stores. As an initial effort to address this gap in the literature, this article describes an exploratory research comparing the impact of two different forms of price promotion on customers' evaluation of the regular prices at the store implementing the promotion.

2. Hypotheses

The heuristic–systematic model of information processing (Chaiken, Liberman, & Eagly, 1989) and the elaboration likelihood model (Petty & Cacioppo, 1986) argue that when processing information, individuals strike a balance between the desire to hold accurate beliefs and the desire to minimize processing effort. Thus, normally people do not engage in extensive information processing unless accuracy is necessary or important. Research in consumer behavior and psychology shows that more extensive processing of information makes the information more accessible in memory; more accessible information, in turn, influences evaluative judgments such as brand evaluations (Biehal & Chakravarti, 1983; for a review see Wyer, 2008). Variables that intensify the need for accuracy are likely to increase processing effort (Johnson & Eagly, 1989; Petty & Cacioppo, 1990). One such variable is the need to make a choice (Suri, Kohli, & Monroe, 2007).

Promotional tools vary with regard to the degree that they necessitate choices on the part of shoppers (DelVecchio, Henard, & Freling, 2006; Laroche, Pons, Zgolli, Cervellon, & Chankon, 2003). Single-tier promotions (such as a coupon for $2 off the next purchase) offer only one possible benefit. In contrast, multi-tier promotions offer two or more levels of deals from which shoppers must select (if they choose to accept any deal). For example, an offer that allows shoppers to choose between $10 off any purchase over $40 or $25 off any purchase over $80 would be a multi-tier promotion. Because multiple deal levels involve a choice, consumers will be motivated to evaluate the relative value (cost/benefit ratio) of the alternative deals, resulting in increased processing effort. Typically, one of the most relevant aspects of value to consumers is how favorably the selling price of the product compares to competitors' prices for the same or similar merchandise (Haws & Bearden, 2006). Therefore, comparing prices across stores is likely to be a part of customers' attempt to assess the relative values of the alternative deal levels. As a result, consumers contemplating multi-tier promotions will be more likely to engage in price comparisons across sellers.

Another aspect of promotions that is likely to impact the level of information processing is the certainty vs. uncertainty of the reward offer (Spears, 2006). While most forms of promotion assure benefits to anyone participating (such as most coupons and rebates), other promotions such as sweepstakes and contests yield outcomes that are essentially probabilistic from the consumer's point of view. These latter forms of promotion offer consumers an uncertain *opportunity* for a reward. This uncertainty is likely to reduce, for consumers, "the relevance of [the] issue to their currently important goals or outcomes" and thereby reduce customers' motivation to devote cognitive effort to elaborate on the promotion (Johnson & Eagly, 1989, p. 292). Consumers offered a certain promotion should therefore be more likely to elaborate on the value of the deal than consumers offered an uncertain promotion.

Pairing the concordant aspects of the two promotional attributes likely to impact information processing (number of tiers and certainty) allows comparing the most extreme combinations (multi-tier/certain vs. single-tier/uncertain). Because this research is exploratory rather than an attempt to develop an exhaustive framework, this study will only compare these two most extreme conditions in an effort to establish the existence of an effect. Because consumers offered a multi-tier/certain promotion will be more likely to process information relevant to the value of the deal (including price comparison information across sellers), such information should be more accessible for those consumers. As a result, these shoppers will be more likely to consider any price differentials between a retailer and its competitors and assess such differentials more extremely (either favorably or