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Increasing Price Transparency: Implications of Consumer Price Posting for Consumers' Haggling Behavior and a Seller's Pricing Strategies

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Abstract

In an attempt to gain a better position in haggling, consumers often seek a seller's pricing information (e.g., whether the posted price is negotiable, the discount and transaction prices) before going to that seller. Although traditionally difficult to obtain, such information is becoming increasingly available due to consumer price posting (CPP), whereby consumers post and share their purchase price information on the Internet. In this analytical study, we consider a market in which a seller, who chooses between a fixed price policy and a haggling policy, serves two types of consumers who differ in their willingness to pay and haggling costs. We explore how CPP can affect consumers' behavior and the seller's pricing strategies (i.e., pricing policy and the associated prices). In the absence of CPP, our model features a two-sided uncertainty: the seller does not know individual consumer's type and thus may find it optimal to use a haggling policy to price discriminate consumers, whereas consumers do not readily observe the seller's cost type and pricing policy, and thus are uncertain whether their haggling will be fruitful. In the presence of CPP, consumers' uncertainty about the seller's pricing policy is resolved. Because CPP can improve price transparency, inhibit consumers' acceptance of a posted price and spur price haggling, it seems apparent that it should benefit consumers and hurt the seller. However, our analysis shows that CPP can lead to fewer purchases, higher prices and even a greater seller profit. It further shows that although CPP surely increases information accessibility, it can also reduce the amount of information available to consumers. These results are in sharp contrast to the conventional wisdom in the literature.

Keywords: Consumer price posting; UGC; Social media; Price haggling; Price discrimination; Information transparency

Introduction

Consumers not only search for but also create and disseminate information on the Internet. Marketing-related user generated content (UGC) is now abundant in online forums and blogs, ranging from promotions and deals to product and store evaluations and comparisons (Bailey 2005). This information, together with other information provided by firms in various social media, is significantly improving information transparency in marketplaces and has important implications for consumer behavior, marketing strategies, and information transparency policies.

In this study, we focus on a particular type of UGC: sellers' pricing policies and historical transaction price information posted and shared by consumers on the Internet, and investigate its impact on consumers' behavior and a seller's pricing strategies. In an attempt to gain a better position in haggling, consumers often seek this information before going to a seller, and such information is becoming increasingly available due to the emerging practice of consumer price posting (CPP). For example, at TripAdvisor.com, where travelers write reviews and advice on hotels, flights and other services, a review titled "Haggle before you book!" makes it known that at Residence du Vieux Port, a hotel in Marseille, France, visitors can haggle to get free buffet breakfasts.[1] At Redflagdeals.com, a Canadian bargain hunting community, one consumer notes that the posted price of a front-load laundry pair is

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[1] http://www.tripadvisor.com/ShowUserReviews-g187253-d195832-r1422352-Residence_du_Vieux_Port-Marseille_Provence.html.

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$3,199.98 at Future Shop, and posts, "I bought these at FS [Future Shop] at the end of last month for $2,657.46… I did have to haggle to get that price though." [2] At Mymoneyblog.com, a consumer community, consumers are informed of secret promotions offered by local TV/Internet service providers. One consumer says, "I recently followed a similar [haggling] process with my Internet provider (Comcast) and managed to save $12.00 a month for the exact same service I had before I called."[3]

In these examples, experienced customers reveal the deals they obtained via social media online, and the prospective customers, having accessed the "secret" price information, become less likely to accept the posted price and more likely to bargain with the seller. Such information, however, was often difficult to obtain. In traditional brick-and-mortar markets, it is quite common that consumers do not know where and when they are supposed to haggle. Such ignorance is not limited to cross-region travelers who are unaware of local pricing norms. In North America, for instance, bargaining is considered a "foreign" and marginal practice, and "it would never occur to most people to negotiate prices with their doctors for health care services but it turns out that doctors, hospitals and labs are willing to negotiate."[4] Likewise, although "a bargaining culture once confined largely to car showrooms and jewelry stores is taking root in major stores like Best Buy, Circuit City and Home Depot, as well as mom-and-pop operations," plenty of consumers still believe that the prices in these stores are non-negotiable (Richtel 2008).

In markets where haggling is possible, there are many reasons for consumers to lack information about a particular seller's pricing policy and transaction price(s). Although haggling is a common trading format for a wide variety of products (e.g., automobiles, furniture, consumer electronics, houses, and services such as airline tickets and vacations) and is rapidly spreading to include more product categories, not all retailers adopt a haggling policy. Haggling usually takes place without an audience, and consumers rarely know the prices paid by other consumers. Fear of appearing foolish or looking cheap can hold consumers back from asking. Perhaps more importantly, the information sources have traditionally been limited to consumers' personal experiences and word of mouth, which are not accessible to all consumers. Sellers tend to conceal their haggling policy and historical transaction prices, for fear that a rise in haggling may make consumers highly price conscious and loyal only to the seller with the least expensive offer. Hence, sellers seldom disclose such information, and when they do it is often not credible. It is commonly observed that sellers try to convince consumers that their costs are high in an attempt to get consumers to pay more (Fudenberg and Tirole 1983). They also insist that their prices are firm and final, yet offer discounts to haggling consumers who are price sensitive. A consumer's comment on a weblog provides a vivid example:

> "I once bought a $900 couch for $650… He [the salesman] grew very frustrated, 'Look lady, we don't do that—go to Mexico if you want to haggle.' This turned to 'Well, I could probably give you 15% off' as I got closer to the door, and to 'OK, OK, but you are robbing me blind' out in the parking lot where he chased me down and accepted my offer."[5]

When sellers' pricing policy information is not known or trusted by consumers, awkward situations can arise. The sellers that adopt a fixed price policy must work hard to convince their customers that their prices are really non-negotiable, whereas distrustful consumers haggle in the stores, only to find that their haggling has been a waste of time. Theoretically, there are a number of means for a seller to signal a pricing policy to uninformed consumers. For instance, it can use a posted price to signal its pricing policy, or simply post a "no haggling" sign in the store. However, consumers often feel uncertain about sellers' pricing policies, which suggests that these means may not be as appropriate and effective in practice as they are in theory.

CPP can help resolve the information asymmetry. It has become increasingly popular among online customers who collect, compile and disseminate a seller's current and historical (transaction) price information. Compared with conventional word of mouth, CPP provides the general public with ease of access and more complete information. Online consumer blogs and communities are considered reliable sources of information by North Americans and Asians (Gu, Park, and Konana 2011), which indicates that CPP is perceived to be more truthful.

CPP is not popular in markets where fixed price policies are the norm, because in these markets a seller charges the same price to all consumers, and this price, whether regular or promotional, is generally advertised both online and offline (Zhang 2009).[6] CPP is more popular when it provides consumers with price information beyond that advertised by sellers; it is particularly inviting when it discloses secret deal information, about which consumers are otherwise uninformed. Equipped with this information, strategic consumers can better predict their shopping outcomes and better determine not only whether, but also how to make a deal with the seller (Evans and Beltramini 1987). For instance, once consumers realize that a product has been sold at a discount off a posted price, they believe that the posted price is negotiable (i.e., that the seller has a haggling policy) and that the discount should be available if they haggle hard enough. In contrast, once consumers realize that no discount was ever given in the past, they believe the posted price to be non-negotiable (i.e., that the seller has a fixed price policy) and thus are discouraged from haggling. The revelation of a seller's discount

2 http://forums.redflagdeals.com/washer-dryer-deals-964762.

3 http://www.mymoneyblog.com/haggle-to-lower-your-directv-bill.html.

4 http://outofpocket.com/Blog/CategoryView,category,Transparency.aspx.

5 http://ask.metafilter.com/41785/How-low-can-you-go, posted by madamjujujive on July 9, 2006.

6 Rao and Syam (2001) examine unadvertised specials. In their model, consumers do not know the price before entering the store. However, once they have entered the store, they get to know and pay the same promotional price. In our model, in contrast, consumers may negotiate and thus pay different prices.