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Research Article

Building trust to increase purchase intentions: The signaling impact of low pricing policies

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Abstract

We examine the differential signaling impact of two low pricing policies, Price Matching Guarantees and Everyday Low Prices, on consumers' trusting beliefs and purchase intentions. We demonstrate that both PMG and EDLP pricing policies signal stores' ability to offer lower prices. However, whether these sellers were perceived as benevolent, and—consequently—consumers' purchase intentions, varied critically depending upon price uncertainty. Perceived benevolence and purchase intentions were significantly higher [lower] for sellers offering PMG than EDLP when price dispersion was high [low]. Our findings offer insights into whether and under what conditions firms should adopt these low pricing policies.

Keywords: Consumer trust; Pricing perceptions; Pricing policies

Introduction

It has long been recognized that sellers often adopt low pricing policies that can "signal" a low price image to consumers and offset their concerns about getting the lowest available prices (Biswas, Dutta, & Pullig, 2006; Jain & Srivastava, 2000; Lal & Rao, 1997). One pricing policy is a Price Matching Guarantee (PMG). A PMG seller promises to match the lowest price consumers can find elsewhere, typically within a designated period of time (Hess & Gerstner, 1991; Jain & Srivastava, 2000; Srivastava & Lurie, 2001).[3] Another pricing policy that has been adopted by many sellers is Everyday Low Prices (EDLP). An EDLP seller usually charges a constant, lower daily price with very few temporary price discounts (Hoch, Drèze, & Purk, 1994; Lal & Rao, 1997).

Researchers have documented the impact of low pricing policies on consumers' perceptions of stores' overall price image (e.g., Jain & Srivastava, 2000; Srivastava and Lurie, 2004). These price image perceptions, in turn, affect not only consumers' price expectations (Thaler, 1985), but also their store choice (e.g., Gijsbrechts, Heerde, & Pauwels, 2008) and purchase likelihood (e.g., Biswas, Pullig, Yagci, & Dean 2000; Jain & Srivastava, 2000; Srivastava, 1999; Srivastava & Lurie, 2001). Yet, as noted by one industry expert, "Price is not the one and only issue … trust, reliability and credibility are gaining as much weight as competitive pricing (Trop, 2008)." In fact, little, if any, empirical research has examined the individual or differential effects of pricing policies such as PMG and EDLP on consumers' trusting beliefs.

The distinction between overall price image and trusting beliefs is theoretically and practically significant. Overall price image entails consumers' perceptions about stores' relative price levels (e.g., high versus low price image retailers are associated with relatively high versus low price expectations, respectively) (Hamilton & Chernev, 2010; Thaler, 1985). In comparison, in the context of this research, trusting beliefs entail consumers' perceptions not only about firms' *ability* to

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[3] Researchers have also examined price-beating polices—those in which sellers offer a refund plus some additional penalty for lower prices found elsewhere (e.g., Biswas et al., 2006; Kukar-Kinney & Walters, 2003). Although both price-matching and beating policies can be referred to as "low price guarantees," we only focus on price matching in this research.

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offer low pricing policies, but also about their *motivations* for doing so (i.e., consumers' perceptions of firms' benevolence).[4] Thus, regardless of overall price image, low pricing policies such as PMG and EDLP may differentially influence consumers' trusting beliefs. Insofar as these trusting beliefs are associated with greater trusting intentions, specifically purchase intentions (Schlosser, White, & Lloyd, 2006), examining the impact of pricing policies on consumers' trusting beliefs—over and above their impact on overall price image—significantly augments our existing understanding of consumers' psychological and behavioral responses to pricing policies.

This research investigates the differential impact of PMG and EDLP on consumers' trust perceptions and purchase intentions. We argue that, over and above overall price image, low pricing policies such as PMG and EDLP also signal ability and benevolence—that is, consumers' beliefs about whether firms are capable of, and altruistically (versus egocentrically) motivated to, offer its consumers the lowest available prices. Controlling for overall price image, we show that, relative to sellers that do not offer pricing policies, those offering PMG and EDLP are perceived as equally low in *ability* to offer low prices. However, depending upon the extent to which price dispersion is high versus low in the market place, EDLP and PMG differentially affect consumers' *benevolence* beliefs, and therefore their purchase intentions. Specifically, when price dispersion is high, consumers' purchase intentions are higher for sellers offering PMG than EDLP. However, when price dispersion is low, purchase intentions are higher for sellers offering EDLP than PMG pricing policies. We further demonstrate that these effects are mediated by consumers' benevolence perceptions.

Our research makes at least three important theoretical contributions. First, whereas existing research in the pricing literature has examined PMG and EDLP policies independently, our research compares the differential impact of these policies on consumers' perceptions and purchase intentions, and identifies conditions under which one pricing policy may lead to higher purchase intentions than the other. Second, we augment existing research, which has demonstrated the signaling impact of low pricing policies on consumers' overall price image perceptions. Specifically, our results suggest that—regardless of overall price image—pricing policies also influence consumers' trusting beliefs; they communicate information about firms' motivations for offering low pricing policies that significantly drive purchase intentions. Third, our findings highlight a previously un-researched theoretical insight: when consumers are concerned about getting the lowest available price, their decision to purchase from any given seller is driven not only by the reassurance that a seller has the ability to provide the lowest available prices, but also that the seller is willing to do so (i.e., is benevolent).

[4] Researchers have argued that trusting beliefs also entail perceived integrity (i.e., the perception that a firm will treat its customers fairly and ethically). This belief is conceptually related to (yet, distinct from) perceived benevolence (see Schlosser et al., 2006) and could also mitigate consumers' concerns about firms' willingness to offer low prices. However, because benevolence beliefs reflect confidence in firms' willingness to act on consumers' behalf in a manner that surpasses generalized expectations of fairness and ethics, and for purposes of conceptual clarity, we focus exclusively on the benevolence beliefs in this research.

Theoretical and hypothesis development

Consumers are often motivated by the goal of purchasing desired items at the best price. Yet, they often face uncertainty about whether a given seller's price is the lowest available and, as a result, perceive financial risk in purchasing from any given seller (Biswas et al., 2006; Grewal, Gotlieb, & Marmorstein, 1994). We suggest that these price-related risk perceptions stem from two salient concerns for consumers: 1) that a given seller may be *unable* to offer the lowest available price for a given item; and 2) that the seller may be *unwilling* to do so. Researchers have argued that a consumer's intentions to purchase despite these possibilities reflect *trusting intentions*—that is, a willingness to act (e.g., purchase) despite perceived risk (e.g., the perceived risk that that the seller cannot and/or will not offer the lowest available price) (Kim, Ferrin, Cooper, & Dirks, 2004; Moorman, Zaltman, & Deshpande, 1992; Schlosser et al., 2006). These trusting intentions, in turn, depend upon the extent to which salient risks are mitigated by corresponding *trusting beliefs*—that is, consumers' confidence in sellers' ability (e.g., the perceived capability to offer low prices) and/or benevolence (e.g., the perceived motivation to offer low pricing policies altruistically versus egocentrically) (Schlosser et al., 2006).

The impact of PMG and EDLP on consumers' trusting beliefs

Signaling theory (Boulding & Kirmani, 1993; Kirmani & Rao, 2000) suggests that consumers perceive both PMG and EDLP pricing policies as signals of sellers' ability to offer low prices. This is because market and consumer-level disciplinary mechanisms (e.g., consumer search, negative word of mouth and failure to repurchase) increase the costs of false signals; only low cost sellers who have the ability to offer low prices can afford to offer them (e.g., Biswas, Pullig, Yagci, & Dean, 2002; Jain & Srivastava, 2000; Kukar-Kinney & Walters, 2003). Consistent with this rationale, researchers have shown that EDLP policies lower a variety of operating costs (Hoch et al., 1994) and advertising expenses (Lattin & Ortmeyer, 1991). Similarly, perceived operating costs were lower and purchase intentions higher in the presence versus absence of PMGs (Srivastava, 1999; Srivastava & Lurie, 2001).

If both PMG and EDLP policies increase sellers' perceived ability to offer low prices (versus sellers that do not offer a low pricing policy), then we suggest that the salient concern and driver of purchase intentions is therefore consumers' benevolence beliefs. Benevolence beliefs reflect consumers' confidence that firms are well-intentioned and care about their customers' well-being over and above an egocentric profit motive (Moorman et al., 1992; Schlosser et al., 2006). Thus, regardless of whether a firm *can* shield its consumers from the risk of over-paying (i.e., paying a price that is higher than the lowest available price in the marketplace), benevolence beliefs reflect consumers' perceptions that a firm is willing to provide