

## **The Moderating Role of Point-of-Purchase Price Information in Consumers' Price Perception and Purchase Intention**

### **ABSTRACT**

**Aims:** Advertised reference prices are one of the contextual prices that have attracted substantial interests. This research proposes the moderating effect of point-of-purchase price information related to product-line and other brand prices on consumers' price perception and purchase intention.

**Methods:** Literature review of reference prices are abundant; however, contextual moderators influence consumers' perceptions at the point-of-purchase price information were limited. The literature gap in this field leads to the propositions.

**Conclusions:** As a result, we propose that product-line prices and prices of other brands moderate the effect of an advertised reference price on consumers' perceived value, benefits of search, and purchase intention. Hence, the impact of advertised reference prices may be mitigated to a certain extent which may reduce the deceptiveness of the advertised reference prices.

*Keywords: Advertised reference price, consumers' perceived value, point-of-purchase price information, product-line price, prices of other brands, purchase intention*

### **1. INTRODUCTION**

Considerable number of theoretical rationales and empirical research findings indicate that advertisements with reference price claims can influence consumer price perceptions, attitude toward the offer, and behavioral intentions [1, 2, 3, 4]. These research findings suggest that reference price advertisements are capable of confusing and misleading consumers.

Nevertheless, previous research indicates that the effects of reference price advertisement on consumer price perceptions and value judgments depend upon the context where consumers are exposed to the effects [5, 6, 7, 8, 9, 10, 11]. Specifically, in a typical purchasing situation, consumers not only may encounter the advertised reference price claims but also are exposed to the other price information concurrently at the point of purchase. The other price information may potentially be used by consumers as a reference to evaluate the sale price or the advertised price of a product of purchase interest. Under this circumstance, the deceptive potential of the advertised reference price may not be of primary concern as previous research indicates.

The purpose of this study is to propose how point-of-purchase price information (such as prices of other brands and product-line prices) moderates the effects of reference price advertisements on consumer price perceptions and behavioral intentions. To the author's awareness, only Biswas et al. (1999) have examined the contextual role of other brands' prices under present and no present conditions [12]. In addition, scholars examined contextual moderating effects such as different market prices, shopping intention, purchase occasion, involvement, promotional environment of the store and product category characteristics were investigated [11,13, 14]. However, no study has been found to propose the moderating effect of product line prices on consumer perceptions of advertised reference prices.

### **2. LITERATURE REVIEW AND PROPOSITIONS**

#### **2.1. Reference Prices**

Research in consumer behaviors have yielded many explanations of how consumers process the price information and make purchase decisions; studies have suggested that for many products, consumers do not evaluate the price of a product independently, but rather judge it relative to some standards or references [3, 15, 16, 17, 18, 19, 20]. The standard or reference used by consumers to assess the price of a particular product is referred to the reference price.

Assimilation contrast theory developed by Sherif and Hovland in 1961 has provided a wealth of conceptual basics for elucidating the effects of reference price advertisement [21]. The theory assumes that consumer's

perceptual judgments involve latitude of acceptance, rejection, and noncommitment. A stimulus that falls within the range of acceptance is referred to be acceptable by consumers and is hence adapted. On the other hand, the stimulus that falls within the range of rejection is measured by consumers to be unacceptable and is hence dissimulated. Consequently, a stimulus falls in the consumer's range of noncommitment; then, his/her judgment is neither positive nor negative, thus triggering consumer's anxiety. The presence of these latitudes infers that there are boundaries around an ideal point.

In the context of advertisements with reference price claims, a consumer's internal reference price is a price against which advertised price stimuli may be judged. A higher advertised price stimulus that falls within the range of acceptance is then accepted and assimilated. The assimilation process results in swing the existing reference point toward the higher advertised price stimulus, in that way affecting consumer price perceptions and behavioral intentions [7, 13, 22, 23, 24; 25, 26, 27].

Retailers have used reference price schemes in advertisement for more than 30 years. Such schemes normally contain a higher price mentioned in an advertising offer (e.g., original price, manufacturer's suggested retail price, regular price) to the consumers accompanied by a sale price of the product. The implication is that consumers possibly will refer to the relatively higher advertised price for evaluating the associated sale price. The result of this price comparison causes the sale price more attractive and acceptable. An advertised reference price thus produces the psychological effect that consumers will get a good deal.

## **2.2. Advertised Reference Prices**

With the exception of Sewall and Goldstein (1979) and Liefeld and Heslop (1985) studies [6, 28], most study found that advertised reference price can substantially influence consumer price perceptions and behavioral intentions [1, 3, 4, 23, 26, 29]. In their integrative review of the advertised reference price effects, Compeau and Grewal (1998) point out that an advertised price reference is a powerful advertising means, with a great opportunity for deceiving consumers, which requires careful monitoring [30]. Urbany et al. (1988) and others [7, 8, 12, 22, 24, 25, 26, 27, 31] suggest that consumer price perceptions and behavioral intentions are vulnerable to the manipulation of the reference price advertisement [22].

## **2.3. Plausible and Implausible Advertised Reference Prices**

Specifically, consumer price perceptions may be influenced by plausible and implausible advertised reference prices that are deliberately provided by retail advertisers [8, 12, 23, 32]. In their research experiments related to shopping scenario, Urbany et al. (1988) found that an ad with a plausible (superficially valuable) advertised reference price raised up subjects' evaluations of the advertiser's regular price and the perceived value, as compared to an ad with no reference price [23]. An implausible advertised reference price indicated the similar significant and positive effects on perception as a plausible reference price, even for those skeptical subjects. They concluded that advertised reference prices are most likely to mislead consumers. A study conducted by Biswas et al. (1999) further indicated that the implausible references are still capable of confusing consumers about the value of the deal and search intention, even with the existence of other external price information (such as other brands' prices) [12].

## **2.4. Point-of-Purchase Price Information**

However, Kahneman (1992) point out that consumers often consider multiple reference points. That is, in judging an advertised price offer, consumers are likely to consider the other source of information at the point of purchase to form judgments of value and shape behavioral intention for a specific purchase [31, 33]. If this behavior occurs, consumer may be shielded to some extent from potentially deceptive reference price practices. Consequently, the advertised reference price is merely one of the reference points consumers may use in evaluating the price of a product of purchase interest. The deceptive nature of the advertised reference price thus can be vindicated to some extent.

Hence, it is imperative to recognize if the existence of the other source of price information at the point of purchase would moderate the effect of advertised reference price claims on consumers' price perceptions and behavioral intentions. As suggested by Rajendran and Tellis (1994), contextual prices are one of the most direct and prominent frames of references pertinent to consumers' price judgments [9]. When consumers have vague knowledge related to the price of a specified product, or when the purchase happens impulsively, price information for the product at that moment will unsurprisingly convert to be a reference point for assessing the value or price acceptability of the product.

## **2.5. Moderator effects on Advertised Reference Prices and Consumers' Price Perceptions and Behavioral Intentions**

Advertised reference prices are one of the contextual prices that have attracted substantial interests [8, 11].

Notwithstanding, in a typical purchasing situation a consumer may also encounter a number of alternative brands and models, with each having a separate price. This price information can potentially be used by consumers as a reference for judging the actual price of a product or for evaluating the advertised reference price claims. Consequently, among other things, price information in the point of purchase includes: advertised reference price, prices of other brands, and product line prices.

The effects of advertised reference price (plausible or implausible) on consumers' price perceptions and behavioral intentions are well documented in the literature [8, 12, 23,32, 34]. In addition, when reference prices are provided, they can limit consumers psychologically to search further information; therefore, the provided reference price is lowering the benefit of search [35]. Along with previous findings, it is proposed that consumers who are exposed to an implausible reference price advertisement will have higher perceived offer value, lower benefits of search, and higher purchase intention than to a plausible reference price advertisement.

P1: Consumers exposure to an implausible reference price advertisement will have higher perceived value, lower benefits of search, and higher purchase intention than to a plausible reference price advertisement.

Prices of other brands are the current prices of other brands obtainable at the point of purchase. On the one hand, when consumers have limited information of a specific brand's past prices or they are suspicious of the advertised price offer, they are likely to choose any brand accessible at the current purchase situation and use the price as a reference for price judgments. On the other hand, consumers are likely to consider a recognized brand price as a reference. Sometimes, they may simply pick up a similar brand price that is accessible as a reference point. Under these circumstances, prices of other brands not only may influence consumers' price perceptions and behavioral intentions, but also moderate the advertise reference price effects.

In their experimental research, Biswas et al. (1999) found significant effects of other brands' prices within a plausible reference price range on consumers' evaluations [12, 36]. However, no moderating effect of other brands' prices on the implausible or highly reference prices was found. Nevertheless, we propose:

P2: The presence of prices of other brands influences consumers' perceived value, benefits of search, and purchase intention.

P3: Prices of other brands moderates the effect of an advertised reference price on consumers' perceived value, benefits of search, and purchase intention.

Product-line prices refer to the current prices of the same brand's other models shown at the point of purchase. This type of price information assumes that a consumer may consider the prices of the same brand's other models as references to compare the price of a specific product (within the product line) of interest. The rationale behind this is that consumers are likely in favor of a specific brand rather than other brands, subsequently considering the specific brand's other model price for price evaluation. In addition, consumers tend to explore the price differential among the same brand's different models, which means that the product-line prices serve as references for judging the fairness of the price of the specific product model of interest. Petroschius and Monroe (1987) found that a product line's price range has an impact on consumer judgments of a model within the line [37]. No study, to the author's awareness, has considered that the presence of product line prices might influence consumers' perceptions of the advertise reference price and its relationship with behavioral intentions. Hence, we propose:

P4: The presence of product-line prices influences consumers perceived value, benefits of search, and purchase intention

P5: Product-line prices moderates the effect of an advertised reference price on consumers perceived value, benefits of search, and purchase intention.

### **3. CONCLUSION**

Both theoretical rationale and empirical research findings indicate that consumers' price perceptions and behavioral intentions are influenced by implausible or exaggerated advertised reference prices. These findings suggest that practices of implausible advertised reference prices have the deceptive potential. However, a majority of the previous studies on the subject of advertised reference prices were tested in a control environment in which subjects were only exposed to the advertisement stimulus containing a relatively higher advertised reference price and a sale price [11, 23]. In a typical purchasing situation, consumers not only may encounter the advertised reference prices but also are exposed to the other price information concurrently at the point of purchase such as prices of other brands and prices of the same brand's different

models (product line prices). The other price information at the point of purchase may potentially be used by consumers as a reference to evaluate the price or the advertised reference price of a product of purchase interest. Consequently, if consumers do use the other point-of-purchase price information (product-line prices and prices of other brands) as references, the effects of advertised reference prices may be mitigated to a certain extent which may reduce the deceptiveness of the advertised reference prices. This inquiry hence forms the basis and contributions of this research study.

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