

The Moderating Role of Point-of-Purchase Price Information in Consumer Price Perception and Purchase Intention

ABSTRACT

Aims: Advertised reference prices are one of the contextual prices that have attracted substantial interest. 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: Using the literature review of reference prices as a method, it was found that contextual moderators that influence consumer perceptions of point-of-purchase price information were limited. Consequently, integrating the literature of advertised reference prices and the literature gap in this field leads to the proposition.

Conclusions: As a result, we propose that product-line prices and prices of other brands moderate the effect of an advertised reference price on the perceived value of consumers, the benefits of search, and the intention to purchase. 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

A 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.

However, previous research indicates that the effects of reference price advertising on consumer price perception and value judgments depend on the context where consumers are exposed to the effects [5, 6, 7, 8, 9, 10, 11]. Specifically, in a typical purchasing situation, consumers may not only encounter the advertised reference price claims but are also exposed to 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 knowledge, only Biswas et al. (1999) have examined the contextual role of the prices of other brands in 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 on consumer behavior has yielded many explanations of how consumers process 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 and 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 as the reference price.

The assimilation contrast theory developed by Sherif and Hovland in 1961 has provided a wealth of conceptual basics to elucidate the effects of reference price advertising [21]. The theory assumes that consumer perceptual judgments involve latitude of acceptance, rejection, and non-commitment. A stimulus that falls within the range of acceptance is considered 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 hence dissimulated. Consequently, a stimulus falls in the consumer's range of noncommitment; then, his/her judgment is neither positive nor negative, thus triggering the 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 the price against which advertised price stimuli can be judged. A higher advertised price stimulus that falls within the acceptance range is then accepted and assimilated. The assimilation process results in a shift of the existing reference point toward the higher advertised price stimulus, affecting consumer price perceptions and behavioral intentions [7, 13, 22, 23, 24; 25, 26, 27].

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

2.2. Advertised Reference Prices

Except for the Sewall and Goldstein (1979) and Liefeld and Heslop (1985) studies [6, 28], most studies found that advertised reference prices can substantially influence consumer price perceptions and behavioral intentions [1, 3, 4, 23, 26, 29]. In their integrative review of the effects of advertised reference prices, 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 perceptions of consumer prices and behavioral intentions are vulnerable to manipulation of the reference price advertisement [22].

2.3. Plausible and Implausible Advertised Reference Prices

Specifically, consumer price perceptions can 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 the shopping scenario, Urbany et al. (1988) found that an advertisement with a plausible (superficially valuable) advertised reference price increased the subjects' evaluation of the advertiser's regular price and perceived value, compared to an advertisement without reference price [23]. An implausible advertised reference price indicated significant and positive effects on perception similar to a plausible reference price, even for skeptical subjects. They concluded that advertised reference prices are more likely to mislead consumers. A study conducted by Biswas et al. (1999) also indicated that the implausible references are still capable of confusing consumers about the value of the deal and the search intention, even with the existence of other external price information (such as prices from other brands) [12].

2.4. Point-of-Purchase Price Information

However, Kahneman (1992) pointed 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 the behaviour intention for a specific purchase [31, 33]. If this behavior occurs, the 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 that consumers may use in evaluating the price at a product of purchase interest. The deceptive nature of the advertised reference price thus can be vindicated to some extent.

Therefore, it is imperative to recognize the existence of the other source of price information at the point of purchase that 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 references pertinent to consumers' price judgments [9]. When consumers have vague knowledge related to the price of a specified product, or when the purchase occurs impulsively, the 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 interest [8, 11]. However, in a typical purchasing situation, a consumer may also encounter a number of alternative brands and models, 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 at the point of purchase includes: advertised reference

price, prices of other brands, and product line prices.

The effects of advertised reference prices (plausible or implausible) on consumer price perceptions and behavioral intentions are well documented in the literature [8, 12, 23,32, 34]. Furthermore, when reference prices are provided, they can psychologically limit consumers to search further information; therefore, the reference price is lowering the benefit of searching [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 the search, and higher purchase intention than to a plausible reference price advertisement.

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

The prices of other brands are the current prices of other brands available at the point of purchase. On the one hand, when consumers have limited information on past prices of a specific brand or they are suspicious of the advertised price offer, they are likely to choose any brand accessible in the current purchase situation and use the price as a reference for price judgment. 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, the prices of other brands may not only influence consumers' price perceptions and behavioral intentions, but also moderate the effects of the advertised reference price.

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

P2: The presence of prices of other brands influences the perceived value, benefits of search, and the intention to buy.

P3: The prices of other brands moderate the effect of an advertised reference price on the perceived value, benefits of search, and the intention to purchase.

Product-line prices refer to the current prices of other models of the same brand shown at the point of purchase. This type of price information assumes that a consumer can consider the prices of the same brand 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 to favor of a specific brand rather than other brands, subsequently considering the model price for price evaluation. Furthermore, consumers tend to explore the price differential between the different models of the same brand, which means that the product line prices of the product line serve as references for judging the fairness of the price of the specific product model of interest. Petrosius and Monroe (1987) found that the price range of a product line has an impact on consumer judgments about a model within the line [37]. No study, to the author's knowledge, has considered that the presence of product-line prices might influence consumer perceptions of the advertised reference price and its relationship with behavioural 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 moderate the effect of an advertised reference price on consumers' perceived value, benefits of search, and purchase intention.

The above propositions are summarized in Figure 1 below:

Advertised Reference Price

Consumers' Responses

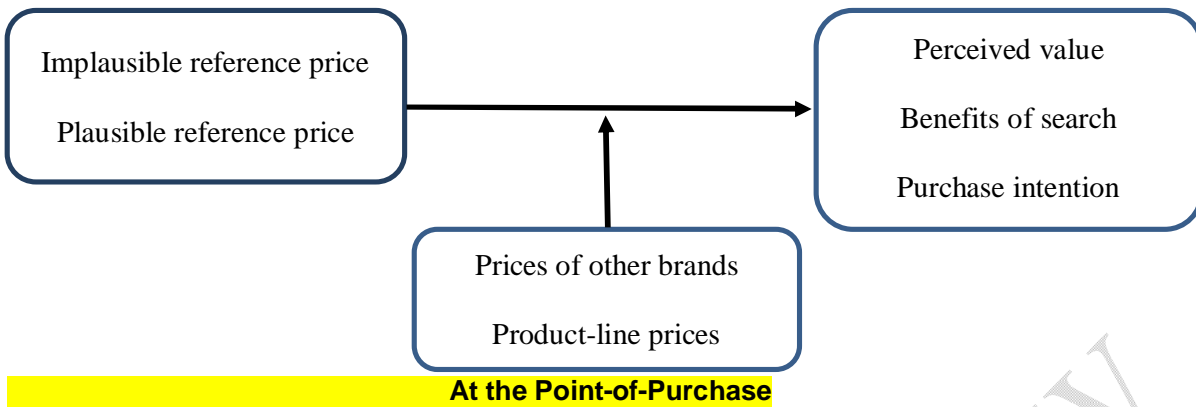


Figure 1: The proposed model

3. CONCLUSION

Both the 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 potential to deceive. However, the majority of previous studies about advertised reference prices were tested in a control environment in which subjects were only exposed to the advertisement stimulus containing a higher advertised reference price and a sale price [11, 23]. In a typical buying situation, consumers not only encounter the advertised reference prices, but also are exposed to other price information concurrently at the point of purchase, such as the 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 with a product of purchase interest. Consequently, if consumers do use 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. Therefore, this enquiry forms the basis and contributions of this research study.

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