The Effects of Contextual Prices on Consumers’ Brand Evaluation: Test of Alternative Models

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Consumer’s price evaluation is susceptible to contextually presented prices. The existing literature suggests that price evaluation is affected by (1) the range of the context prices, (2) the price rank in the price set, and (3) the average context price. The results of three studies present converging evidence that which feature of the context price plays a more important role is moderated by the type of price evaluation task. The range has stronger influence when evaluating attractiveness of a target, whereas either the rank or the average price effect is predominant when deciding on whether or not to purchase a brand.

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EXTENDED ABSTRACT

Consumer’s price evaluation is often susceptible to other price information available in a decision context (e.g., Janiszewski and Lichtenstein 1999; Niedrich, Sharma, and Wedell 2001). For example, consumers use prices of other alternatives in the given or evoked choice set as their reference prices and incorporate this information into their evaluation of the target price (e.g., Rajendran and Tellis 1994). Prior research has proposed various theories explaining the reference price effects. These theories include adaptation-level theory (Helson 1964), range theory (Volkmann 1951) and range-frequency theory (Parducci 1961). These theories differ in terms of which specific reference price information plays the most important role in affecting consumer price evaluation. First, adaptation-level theory suggests that consumer’s evaluation of the target price is influenced mainly by the relative position of the target to the arithmetic or geometric average (i.e., adaptation-level) of the contextual prices. Second, range theory proposes that the relative distance of the target to the extreme prices in the given context price range is the most important influencing factor. Finally, range-frequency theory claims that the reference price effect can be best explained by the weighted average of the target price’s relative distance to the extreme prices and its rank within the given price set (e.g., the 3rd or 5th most expensive option among all the prices presented).

While the past research focuses on the superiority of a particular model over the others, little research has been done to identify the moderating factors. We put forth that whether consumers rely on the average, range or frequency information depends on the type of decisions they are asked to make. This is due to the compatibility between the cognitive processing called for by different decision tasks and the process underlying the specific reference effects. Specifically, if the decision task promotes the use of continuous processing, as in the case of the price attractiveness rating, the range of the contextual prices will play a more important role. On the other hand, if the decision involves a dichotomous processing, as in the case of deciding whether or not to purchase the target brand, the adaptation-level or the frequency effect will be more prominent. Further, we suggest which of the two features (average vs. ranking) will prevail in the purchase decision task depends on the format in which context price information is presented (e.g., ascending or random order).

These predictions were tested in three lab studies. In all three studies, the average (i.e., adaptation-level), the highest and lowest price (i.e., range), or the ordinal rank of the target (i.e., frequency) within the list of contextual prices is systematically and independently manipulated across experimental conditions. In study 1 and 2, participants are asked to view a list of prices of other brands in the same product category and then presented with a target brand with price information alone. Subsequently, they were asked to make a judgment with respect to the target brand and the type of judgment differs depending on the assigned condition. There are three different judgment conditions: product attractiveness rating, purchase intention rating, and purchase/no purchase choice condition. In the product attractiveness rating condition, subjects rate the target brand in terms of its attractiveness on a 7-point scale anchored by “not at all attractive” and “very attractive”. In the purchase intention condition, subjects rate their likelihood of purchasing the target brand using a 7-point scale anchored by “not at all likely to purchase” and “very likely to purchase”. Lastly, in the purchase/no purchase condition, subjects make a choice of whether or not to purchase the target brand using a dichotomous scale (i.e., yes or no).

The findings from the three studies support our hypotheses. Consistent with our predictions, study 1 results show that, in the attractiveness rating condition, the manipulation of the lowest and the highest context prices exerts a significant impact while both the change in the average context price and the ranking of the target price did not have a significant impact. In contrast, in both purchase intention and purchase/no purchase decision tasks, the rank order of the target has a strong effect on subject’s judgment. However, no significant effect was observed in the range or the average condition.

Study 2 examines the condition under which the average model over the frequency model will prevail in the purchase decision task. The study procedure was similar to that of study 1 except that we decreased the number of context prices from 10 to 6 and added the condition where the reference prices are presented in jumbled order. In line with our expectation, we found the adaptation (vs. frequency) model better accounts for subjects judgments regarding both purchase intention and purchase/no purchase choice.

Study 3 extends the testing of the context effect to the situation where price evaluations are made given other product attributes in addition to the price. A total of 16 brand descriptions were generated as a Latin-square combination of four price levels and two product features with four levels for each attribute. The range and shape of the price distribution vary across three conditions. Participants decided whether or not to consider purchasing each brand. Thus, the task is identical to the purchase decision condition except that the decisions are for all brands included in the stimulus set. An analysis of the choice probability for each price level across price distribution conditions indicates that the purchase probabilities fit better to the adaptation-level model than the range or frequency model. The result replicates the findings of study 2, since the average context price has a stronger influence on brand purchase decisions when there are a small number of price levels presented in random order.

In conclusion, our research extended the previous studies by examining the moderating effect of decision tasks on the relative suitability of each reference price effect model. We propose that the compatibility of the context information with the decision task explains the contextual price effect. We believe that current research enriches our knowledge on the influence of external price on consumer judgments and provides an interesting avenue for future research.

References

