Price Matching Guarantees As Signals of Lowest Price: the Role of Perceived Risk and Estimate of Lowest Market Price

Abhijit Biswas, Wayne State University
Sujay Dutta, John Carroll University
Dipayan Biswas, Bentley College

This paper presents and tests a model of Price Matching Guarantee (PMG) effects where consumers' estimates of a product’s lowest market price and their perception of financial risk of an offer mediate the effects of PMG on perception of offer value, shopping intention and search intention. Specifically, the findings indicate that exposure to an offer accompanied by a PMG shifts consumers’ estimates of the lowest market price toward the offer price and leads to lower perceived financial risk of the offer. These effects in turn lead to higher value perception, higher shopping intention and lower search intention.

[to cite]:


[url]:

http://www.acrwebsite.org/volumes/12384/volumes/v33/NA-33

[copyright notice]:

This work is copyrighted by The Association for Consumer Research. For permission to copy or use this work in whole or in part, please contact the Copyright Clearance Center at http://www.copyright.com/.
Price Matching Guarantees as Signals of Value: The Role of Perceived Risk and Estimate of Lowest Market Price
Sujay Dutta, John Carroll University
Dipayan Biswas, Bentley College
Abhijit Biswas, Wayne State University
Chris Pullig, Baylor University

EXTENDED ABSTRACT
Price Matching Guarantees (PMG) are tools where retailers explicitly or implicitly claim to offer the lowest market price and promise to match or beat lower market prices located by buyers. Prior to a purchase, matching or beating of lower prices is achieved by suitably lowering prices by the PMG-offering seller and following a purchase, matching or beating is achieved by issuing a refund to consumers.

Past research on PMG has generally indicated favorable effects of such guarantees on consumer pre-purchase perceptions and behavioral intentions. For instance, exposure to PMG raised consumer perceptions of offer value, their shopping intention and their belief in the overall low-priced nature of the retailer, while reducing their search intention (Biswas et al. 2002; Srivastava and Lurie 2001). Although researchers have indicated some theoretical conditions delimiting the effectiveness of such guarantees (Srivastava and Lurie 2004), no clear-cut understanding exists about marketplace factors consumers consider in their assessment of PMG. In the present research we propose a model of PMG effects and suggest that PMG favorably affects consumer perceptions when consumers perceive a low dispersion of market prices but not when they perceive a high dispersion of prices.

Till date, most researchers have conceptualized PMG as a marketplace signal (Biswas et al. 2002; Srivastava and Lurie 2001, 2004) whose primary function is to overcome information asymmetry between retailers and consumers regarding the precise location of individual retailers’ offer prices in the marketplace continuum of prices. The purpose of a PMG is to inform consumers that an offer price is close to or equal to the lowest market price and to compensate consumers monetarily should that information turn out to be inaccurate.

We propose that if PMG is perceived by consumers to be truly diagnostic of the offer price’s position among market prices, then exposure to PMG ought to affect consumers’ estimate of the lowest market price and should also reduce their perception of financial risk involved in transacting with the retailer. Past research indicates that consumer perception of market price dispersion likely differs from an existing dispersion (Grewal and Marmorstein 1994; Urban and Dickson 1991) and that usually consumers are not quite confident of their estimates of market prices and consequently, consumer price estimates are susceptible to external cues (e.g., Winer 1986). Hence, exposure to PMG may lead consumers to readjust their estimate of the lowest market price for the product concerned such that consumer lowest price estimate is higher when an offer is accompanied by a PMG, compared to an offer without a PMG. Also, the implicit or explicit promise of a PMG to offer a price close to the lowest market price should reduce consumer concern about overpayment; that is, an offer with a PMG should lead to lower perceived financial risk than one without a PMG. Given that the sacrificial components of an exchange are reduced in the presence of a PMG, we argue that these effects, in turn, enhance consumer perception of offer value, raise their intention to shop the retailer and reduce their intention to search for lower prices. In other words, consumers’ estimate of the lowest market price and their perceived financial risk mediate the effects of PMG on perception of offer value, shopping intention and search intention.

Finally we posit that such favorable consumer responses to PMG as outlined above are not unconditional and that these effects are less likely to occur when consumer perception of market price dispersion is high. A high price dispersion indicates the likelihood of a larger number of existing price points to consumers and given the constraints existing on consumer search ability, this is likely to be perceived as a situation where it is relatively easier for high-priced retailers to opportunistically place the signal in the market with a sense of impunity. In other words, consumer perception of the strength of marketplace disciplinary mechanisms is likely to be low thereby leading to loss of signal potency (Srivastava and Lurie 2004). On the other hand, when consumers perceive low price dispersion in the market, they are less concerned about high-priced retailers getting away with a false signal thereby enhancing signal potency.

In a preliminary one-factor (PMG: present; absent) study with 43 non-students, we found support for our proposed mediation-based model of PMG effects. In a second, 2 (price dispersion: high vs. low) × 3 (PMG absent, PMG 100% refund, PMG 150% refund) study with 154 undergraduate students, we found that favorable effects of PMG occur only when perceived price dispersion was low. An examination of simple main effects within the low price dispersion condition revealed that the presence of an LPG was effective in influencing all dependent variables in the hypothesized direction (all $F(1, 44) > 4.67$, all $p's <.05$, $\eta^2$ ranged from .10 to .30). In the high price dispersion condition, the presence of an LPG offering a 100% refund had no effect on the dependent variables of lowest price estimates, risk perception, offer value, and search intention (all $F's (1, 53) < 3.63$, all $p's >.05$, all $\eta^2 <.06$). An LPG offering a 150% refund within the high price dispersion condition, however, was effective in enhancing shopping intention ($F(1, 53) = 4.86$, $p <.03$, $\eta^2 =.08$).

Theoretically, our findings are important in their demonstration that signal potency is not unconditional and consumers’ judgment of marketplace disciplinary mechanisms delineates the boundary condition for low price signal effects (Srivastava and Lurie 2004). Particularly, our findings include that consumers are observant of the context, as defined by relevant market characteristics, in which a signal is evaluated. Further, our findings are supportive of the basic assumption of consumer rationality integral to signaling theory, in that consumers incorporate perception of seller motives in their evaluation of signals (Kirmani and Rao 2000). The most important practical implication of our findings is that retailers would be well advised to refrain from opportunistic use of PMG, as consumers are not blind to such possibilities in their evaluation of this pricing tool.

REFERENCES


