

An Insight on the Influence of Price-Matching Guarantees on Consumer Behaviour in Romania

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Abstract

Price-matching guarantees represent a technique that promises the refund of price difference in the case a customer finds elsewhere a lower price. Such technique is used by stores to create a low price image and to stimulate the searching behaviour. Price-matching guarantees might have also an influence on value perceptions and shopping intentions. In Romania, this technique was introduced in the last 15 years, being conducted few studies on Romanians attitude on such pricing tactic. The present paper has as purpose to identify the way in which the refund depth (the amount offered as difference in the case of finding a lower price elsewhere) and the searching area (the area where are situated the stores whose price might be checked in order to claim the guarantee) influence the price perceptions, the intentions to claim the guarantee, the value perceptions and the price fairness perceptions. There was conducted a 2x2 marketing experiment among Romanian students that were exposed previously to price-matching guarantees technique and that belong to the target market of the product used in the experiment. The major results of this study emphasize that Romanian customers are not very sensitive to price-matching guarantees technique, the area where are situated the stores whose price might be checked influences the intentions to claim the guarantee and the value perceptions.

Keywords: price perceptions, price-matching guarantees, marketing experiment, Romania.

JEL classification: M31.

1. Introduction

Price-matching guarantees (PMG) represent one of the price tactic that promises to match the competition prices in the case they are lower, before or after the purchase (Kukar-Kinney, Walters and MacKenzie, 2007). This tactic is known as price matching guarantees (Kukar-Kinney and Grewal, 2007, Lurie and Srivastava, 2005, Kukar-Kinney, Walters and MacKenzie, 2007), low price guarantees (McWilliams and Gerstner, 2006), low price signal (Dutta and Bhowmick, 2009).

The PMG characteristics that are manipulated by stores in order to achieve their objectives are: the refund depth (the compensation accorded by the price-matching store in case the customer finds a lower price elsewhere), the refund period (the period within the lower price is found and it is claimed the refund) and the scope that refers to the conditions necessary to apply for such a tactic (the spread of competitors that might be compared, the products characteristics) (Kukar-Kinney, Walters and MacKenzie, 2007). Refund depth may vary, some stores refund the difference between the lower price identified at the competitors and their price, others refund several times the difference, while some refund the difference and a certain amount expressed in absolute value or in percent. The refund period may vary, according to seller's policy and the product type, some stores setting 24 hours, while others 30 days. The area where competitors could be found, may be a town, a certain region, a country or certain stores, especially for online environment.

This technique has an informational component and a protective component, the protective component confers credibility to the informational component, concerning that consumers infer that retailers may suffer a loss in the case they transmit misleading messages regarding the price (Dutta and Bhowmick, 2009). PMG may be a tactic that discriminate the customers, according to their information and transaction cost (Png, and Hirshleifer, 1987; McWilliams and Gerstner, 2006).

PMG is less used in Romania, because of low acceptability among customers and because of the

ineffective way to manage it by the sellers. Although this tactic was introduced in Romania about 15 years ago, it was not adopted by many companies. In a qualitative research conducted in 2006 on Romanians' price fairness perceptions, Catoiu and Vranceanu (2007) found that price-matching guarantees technique was considered a deceiving tactic, aimed to manipulate customers, because they are not interested to check prices. The present study aims to evaluate the Romanians behavior on two elements of price-matching guarantees: refund depth and refund scope.

2. Price-matching guarantees influence on consumer behavior

Price-matching guarantees influence the process of price searching behaviour (Maarten and Parakhonyak, 2013), value perceptions (Dutta et al., 2006), loyalty (Kukar-Kinney, 2006, McWilliams and Gerstner, 2006). The stores that use PMG are perceived less expensive comparing to the competition (Lurie and Srivastava, 2005), but the effect of decreasing the price level perceptions is greater for more reputable stores than for those with lower or no reputation (Kukar-Kinney and Grewal, 2007). Price matching guarantees modify the standards used to evaluate a price, thus the presence of a price-matching guarantee conducts to a higher estimate for the lowest and for the average market price (Lurie and Srivastava, 2005). The exposure to PMG tactic may conduct consumers to modify their expectations on the lowest market prices, the last one being perceived higher when it is offered a PMG comparing to the situation in which it is not used such a tactic (Dutta, et al, 2006). PMG is perceived as a signal for low store prices due to lower margins of profit rather than low operating costs (Srivastava and Lurie, 2004).

H1: Higher the refund depth, the store prices are perceived to be lower.

Srivastava and Lurie (2004) show that PMG is effective when search costs are low and this tactic become a signal for a low priced store when others' willingness to engage in price search, to enforce guarantees or both are high.

The price-matching guarantees effectiveness may be increased by reducing the price length and by narrowing the price-matching scope because, for long refund period and wide scope, price conscious consumers have to increase their search effort, with lower benefits regarding purchase behavior (Kukar-Kinney, Walters and MacKenzie, 2007).

The store loyalty is positively influenced by the refund scope, but not by the refund depth (Kukar-Kinney, 2006). The same author states that price conscious and skeptical customers increase their repurchase behavior in conditions of a wide PMG scope in a greater extend comparing to those that are less price conscious or less skeptical.

H2: Larger the searching area, higher the intention to refund the guarantee

The environment (online stores or bricks-and-mortar stores) influences the impact of PMG. Thus, Kukar-Kinney and Grewal (2007) state that PMG conducts to a lower price perceptions in bricks-and-mortar stores, effect not met in online stores. As such a tactic to be effective, the online stores must be more oriented to increase price transparency, informing on the conditions necessary to obtain the refund, proving customers testimonials and making this tactic appear more enforceable for customers (Kukar-Kinney and Grewal, 2007).

The perceived characteristics of store influence PMG effects, in stores perceived as high prices stores, PMG makes to be perceived less expensive, such an effect not being met when consumers believe the store offers low prices (Lurie and Srivastava, 2005). The offering of price-matching guarantees improves customer retention (McWilliams and Gerstner, 2006).

The degree of price consciousness influences the way in which PMG is perceived. Thus, a deep refund is interpreted by nonprice conscious customers as a signal of low price, while by the price conscious customers as a signal of higher prices (Kukar-Kinney, Walters and MacKenzie, 2007). PMG influences the price estimations made by consumers when they manifest uncertainty on competition prices (Lurie and

Srivastava, 2005). The stores that use higher than average market prices, when offer PMG may be accused of misleading messages by the less price conscious customers that are prone to consider the deep refunds as a cue for low prices (Kukar-Kinney, Walters and MacKenzie, 2007).

H3: Higher the refund depth, higher the price fairness perceptions

McWilliams and Gerstner (2006) showed that the usage of low price guarantee practice together with money back guarantee (the practice of returning the money paid to the dissatisfied customers) conduct to the increase of economic efficiency for both parties (retailer and customer). Thus, for retailers there are lowered the inventory costs involved in returning the products when finding in another store a cheaper one (cost of handling the returned product, the loss of product depreciation, cost of stocking the returned product), whereas for customers there are lowered the hassle costs (costs of product returning and of rebuying it from another retailer with lower prices) (McWilliams and Gerstner, 2006).

PMG increases the reservation price that is the maximal price consumer will pay instead of continuing searching for a lower price (Maarten and Parakhonyak, 2013). Thus, the increase of reservation price gives the retailers that use PMG the opportunity to raise their current prices and to increase profits.

PMG could influence competition intensity, taking into consideration the customers searching behavior (Yuan and Krishna, 2011). Thus, when the demand of customers that search for a low price is more elastic than the non-searchers demand, PMG may conduct to more intense price competition. Consumers become more informed and buy larger quantities at lower prices (Yuan and Krishna, 2011).

The Every Day Low Price (EDLP) strategy in association with PMG tactic may influence consumer behavior (Borges, 2009). Thus, the offering of a high refund in the condition of applying EDLP may lead to the increase of PMG credibility, of the perceived value and of buying intentions. For retailers that do not apply EDLP is recommended a low refund, a high refund having the same effect with not using PMG at all (Borges, 2009).

H4: Higher the refund depth and the refund scope, higher the perceived value

The effect of PMG depends on the number of loyal consumers, this tactic could incur either price collusion or price discrimination effects (Koh et al., 2012). The usage of PMG is efficient when, at a category level, the product substitubility is high and the shelf space in the store is limited, thus the retailer has to stock identical products (Coughlan and Shaffer, 2009).

The use of PMG does not guarantee that the store uses the lowest price or even a price lower than the average, but allows consumers to look for the lowest price (Srivastava and Lurie, 2004).

Methodology

In order to assess the influence of refund depth and of refund scope, operationalized as area spreading of competitors whose prices might be checked, it was conducted a 2x2 marketing experiment. The subjects were asked to read a scenario in which they were invited to imagine they were interested in buying a tablet computer from a traditional electronic store (except for online stores). The independent variables were refund depth, operationalized as low (matching once the price difference) and high (matching twice the price difference) and refund scope, operationalized as reduced (the stores that might be checked their prices are from Bucharest, except for online stores) and large (the searching area for checking prices is any store from Romania, except for online stores). The dependent variables, measured on semantic differentials with five levels, were: perceived store prices, intention to claim the guarantee, value perceptions, price fairness perceptions. The dependent variables were defined according to items adapted from Kukar-Kinney (2003); Kukar-Kinney and Grewal (2007); Kukar-Kinney (2006); Lurie and Srivastava (2005). The subjects were students from an economic higher education institution from Bucharest, the data being collected between 16 March - 20 April 2016. The sample consisted of 100 subjects, 72.3% females and 27.7% males, for each experimental cell being distributed 25 persons.

Results and discussion

In order to analyze the data, there was applied the analysis of variance (ANOVA), using SPSS 20 software. The prices of the store that apply price-matching guarantees tactic are perceived to be lower for matching twice the price difference condition ($M=2.82$), than for matching once the price difference ($M=3.08$), but the differences between the two groups are not significant, $F(1,96)=1.717$, $p>0.1$. Thus, H_1 is not accepted, the refund depth does not influence the perceived store price.

The intention to refund the price guarantee is higher ($M=2.82$) when the customer might search for lower prices in stores from Romania (except for online ones) than in stores from Bucharest ($M=2.32$), $F(1,96)=3.202$, $p<0.1$. Although, the Romanians intention to refund the difference is low, the averages for this variable not exceeding the level of 3, on a scale from 1 to 5 (Table 1). Thus, H_2 is accepted, larger the searching area (refund scope), higher the intention to refund the guarantee.

Refund scope	Refund depth	Mean	Std. Deviation	N
Romania	Once the difference	2.8400	1.49108	25
	Twice the difference	2.8000	1.52753	25
	Total	2.8200	1.49407	50
Bucharest	Once the difference	2.0800	1.15181	25
	Twice the difference	2.5600	1.38684	25
	Total	2.3200	1.28476	50
Total	Once the difference	2.4600	1.37336	50
	Twice the difference	2.6800	1.44900	50
	Total	2.5700	1.40888	100

Table 1. Means and standard deviations for the intention to refund the price guarantee

Also, the intention to refund the price guarantee is higher for matching twice the price difference ($M=2.68$) than for matching once condition, but the difference between the two groups is not significant $F(1,96)=0.620$, $p>0.1$. The interaction effect between refund scope and refund depth is not significant, $F(1,96)=0.866$, $p>0.1$ (Table 2).

Source	Type III Sum of Squares	df	Mean Square	F	Sig.	Partial Eta Squared
Corrected Model	9.150	3	3.050	1.563	0.203	0.047
Intercept	660.490	1	660.490	338.424	0.000	0.779
Refund scope	6.250	1	6.250	3.202	0.077	0.032
Refund depth	1.210	1	1.210	0.620	0.433	0.006
Refund scope * Refund depth	1.690	1	1.690	0.866	0.354	0.009
Error	187.360	96	1.952			
Total	857.000	100				
Corrected Total	196.510	99				

Table 2. Test of between-subjects effects for the intention to refund the price guarantee

The mean for perceived price fairness $M=3.46$ for the condition of matching once the price difference is higher than for matching twice the difference ($M=3.34$), but the difference between the two means is not significant, $F(1,96)=0.628$, $p>0.1$. Thus, H_3 is not accepted, the refund depth does not influence the price fairness perceptions. Also, for high scope condition the mean for perceived fairness perception is $M=3.42$, almost similar with low scope condition ($M=3.38$), $F(1,96)=0.07$, $p>0.1$. Thus, the searching area does not influence the price fairness perception.

For high refund depth condition the perceived value ($M=3.44$) is quite similar with that for low refund depth condition ($M=3.58$), $F(1,96)=0.858$, $p>0.1$. For large refund scope the perceived value is higher ($M=3.68$) than for low refund scope ($M=3.34$), $F(1,96)=5.063$, $p<0.05$. Thus, H_4 is partially accepted, higher the refund scope, higher the perceived value.

Conclusions

Romanian consumers are not very sensitive to price-matching guarantee technique. The stores that offer high refund depth (matching twice the price difference) are perceived as practicing relative low prices, but not very different comparing to the stores that match once the price difference. Thus, the refund depth has not a significant influence on perceived store prices. The intention to refund the guarantee is low, but there are differences according to refund scope: when there are many stores whose price might be checked, the intention to refund the guarantee is higher than when there are few. The refund depth has not a significant influence on the intention to claim the price difference.

The fairness of price-matching guarantee technique is perceived somehow fair, but it is not influenced by refund depth and by searching area. Concerning the perceived value, it is higher for large refund scope, than for low, but the refund depth has no influence on this variable.

The present study has as major limit the fact that respondents were students, other categories of customers not being represented. Taking into account that in Romania there are few studies on price-matching guarantee technique, it might be useful for further studies, to be evaluated the influence of this tactic considering the store type (traditional or online) and the refund period.

The managerial implications of this research concern the necessity, for the decision makers, to promote price-matching guarantees with large scope, the area where might be checked the prices have to be wider. Also, Romanian sellers have to promote more price-matching guarantees tactic, in order to increase consumer confidence in it and the intention to claim the guarantee.

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