



# Online shoppers' response to price comparison sites<sup>☆</sup>

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## ARTICLE INFO

### Article history:

Received 1 March 2014

Received in revised form 1 April 2014

Accepted 30 April 2014

Available online 19 May 2014

### Keywords:

Price comparison site

Product type

Price consciousness

Price and value perceptions

## ABSTRACT

Customers' perceptions of price differ in the online environment due to the presence of price comparison sites. The purpose of this study is to examine how price comparison sites affect price and value perceptions of online shoppers across different product types and price consciousness levels of online shoppers. The results of the study indicate that the price information provided by an online price comparison site influences online shoppers' perceptions of internal reference prices. However, the influence of a price comparison site on value perception differs according to product type. As evidenced by the significant interaction effect between product type and price comparison site information, the presence of price comparison sites increases both transaction and acquisition value perceptions for the non-look-and-feel product category (e.g., notebook computers), but not for the look-and-feel product category (e.g., jeans). Contrary to the expectation, online shoppers' price consciousness influences their price and value perceptions independently of price comparison site information.

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## 1. Introduction

The telepresence created by the virtualization process on the Internet drastically affects all aspects of the consumers' buying process. One of the successful applications of the Internet in the online shopping environment (Hoffman, Novak, & Chatterjee, 1995) is the presence of comparison sites. Online shopping comparison sites, also known as price comparison sites, shopbots (Haubl & Trifts, 2000), and Internet shopping agents (Iyer & Pazgal, 2003), are more widespread than ever before (Pan, Ratchford, & Shankar, 2004). They become a significant element for online shoppers by providing access to price and product information (Shin & Park, 2007; Su, 2007). In particular, sites focusing on price comparisons play an important role not only in reducing efforts to search for product/service information but also in changing the perception of prices. Price comparison sites reduce buyers' search costs and help their decision-making by providing price comparison information, which is seldom present in the physical retail shopping context (Brynjolfsson & Smith, 2000).

Previous studies on online shopping comparison sites address the impact of price comparison sites on online shoppers' resulting price sensitivity. Researchers (Degeratu, Ranganwamy, & Wu, 2001; Iyer &

Pazgal, 2003) state that the proliferation of price comparison sites necessarily increases both sellers' price competition and buyers' price sensitivity. Although evidence suggests that online consumers become increasingly sensitive to price after using price comparison sites (Cho & Song, 2002), what happens in terms of their internal price and value perceptions remains unexplored in relation with the adoption of a price comparison site. For example, Ernst and Young (2001) report that some online consumers purchase from their favorite online sellers or big online retailers even though they are aware that their prices are high. Such online consumers do not necessarily associate the highest value with the lowest price, although they have higher price sensitivity in online compared to offline situations.

The existence of non-price-based purchases on the Internet requires the consideration of additional variables that might interact with price comparison site information. This study considers two relevant variables. First, this study examines the difference in product type. The lack of physical touch is the most important aspect that differentiates online shopping from offline shopping. Price is an objective attribute that needs no physical inspection. However, much quality related attributes might require physical inspection. Across the product type, the relative importance of the attributes that require physical inspection differs (Degeratu et al., 2001), so does the relative effectiveness of price comparison site information. Second, the study investigates the influence of consciousness that affects price perception in addition to price information. The level of price consciousness influences the consumer's relative importance of price information in value perception and subsequent purchasing decision (Alford & Biswas, 2002). Thus, this study examines the differential effect of online shoppers' price consciousness together with the price comparison site effect on online

<sup>☆</sup> The authors are grateful for the financial support from the KDI School of Public Policy and Management.

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shopping. By the moderating effects of product type and online shoppers' price consciousness, this study aims to investigate online shoppers' response to price comparison site information. More specifically, this study explores impacts of price comparison site information on online shoppers' price perceptions (in terms of internal reference price and acceptable price range) and value perceptions (in terms of transaction and acquisition value) by comparing two product categories (i.e., look-and-feel versus non-look-and-feel) and two consumer groups (i.e., high versus low price conscious consumer groups).

## 2. Conceptual background

### 2.1. Price comparison site information and price and value perceptions

A buyer's perception of price is a consequence of individual cognition and perception. In this aspect, prior studies (Martin-Consuegra, Millan, Diaz, & Ko, 2010; Monroe, 1990) state that what really affects a purchase decision is not the objective price, but rather the interpreted price. According to the adaptation-level theory (Helson, 1964), consumers have adaptation price levels against which they evaluate offered prices. This information is stored in a consumer's memory and serves as a point of comparison for future purchases (Han, Gupta, & Lehmann, 2001). The price anchor, known as the reference price, explains how buyers judge the given price as being acceptable, too high, or too low (Grewal, Krishnan, Baker, & Borin, 1998; Monroe, 1990).

According to Mayhew and Winer (1992), internal reference prices are prices stored in memory based on accumulated past information on actual, fair, or other prices. Past studies demonstrate that consumers' memory of price has a substantial impact on their internal reference price perceptions (Kalwani & Yim, 1992; Krishna, 1992; Winer, 1986). As uncertainty magnifies the impact of memory when setting internal reference prices, uncertainty in price information at the time of price perception can influence consumers' perceptions of internal reference price (Kosenko & Rahtz, 1988; Thomas & Menon, 2007). In fact, Kosenko and Rahtz (1988) find a negative relationship between buyer's uncertainty in market price knowledge and perceived level of acceptable price limits (both upper and lower limits).

Consumers with market price knowledge were found to have less uncertainty in price information and higher level in both end points of acceptable prices, which resulted in a higher level of internal reference price. This happens because consumers with uncertain price information have to rely on their memories for their internal reference prices. Internal reference price retrieved from memory is usually kept at a discounted level out of conservatism. In the online environment, reliable information from a price comparison site might reduce consumers' uncertainty level in price and their tendency to depend on memory at the time of purchase. Thus, the availability of price comparison site information might influence online consumers' perception of internal reference price. More specifically, the presence of price comparison site could result in an increased level of internal reference price perception.

Studies on reference price also demonstrate the existence of latitude in reference price perception (Han et al., 2001; Monroe & Petroschius, 1981). This latitude is an acceptable price range, with an identification of upper and lower limits (Monroe & Venkatesan, 1969). Monroe (1973) refers to acceptable price ranges as limits of responsiveness to extreme price stimuli in much the same way as sensory limits of responsiveness to extreme sensory stimuli. The upper limit is the maximum price above which consumers think the product is too expensive and is thus unfavorable whereas the lower limit identifies the price below which consumers are suspicious of the quality of the product (Kosenko & Krishnan, 1990; Monroe & Venkatesan, 1969).

Researchers suggest that numerous factors influence an individual's acceptable price range (Lichtenstein, Bloch, & Black, 1988). Uncertainty in prices is an important factor that magnifies the range of acceptable

price (Dickson & Sawyer, 1990; Winer, 1989). Mazumdar and Jun (1992) affirm that high price uncertainty widens the gap between the budgets that consumers allocate for purchasing and the thresholds at which they perceive losses. The study proposes reduced uncertainty in price if consumers are provided with more information about the price dispersion in the market. Consequently, assuming that price comparison sites result in reduced uncertainty in buyers' price judgments by providing various market prices, the width of acceptable price ranges can be narrower for online buyers with price information from price comparison sites than for buyers who do not have such information. Thus, consistent with past findings in the offline context, this study predicts that online buyers with price information provided by price comparison sites will have (a) higher internal reference prices and (b) narrower acceptable price ranges than those who do not have such information.

In addition, value perception is as important as price perception in understanding and predicting buyers' purchase decision-making behaviors. Monroe and Petroschius (1981) define perceived value as a customer's assessment of the net utility based upon the judgment of what the customer will receive from the purchase and what the customer will have to give to purchase the product. Prior studies show that perceived value involves two independent concepts: transaction value and acquisition value (Grewal, Monroe, & Krishnan, 1988; Lichtenstein, Netemeyer, & Burton, 1990; Monroe, 1990). By definition, transaction value is the psychological utility generated from a good buy independent of the product quality, whereas acquisition value is the expected pleasure gained from using the product compared to the amount paid to acquire the product (Grewal et al., 1998).

Monroe (1990) conceptualizes perceived transaction value (PTV) as the difference between the internal reference price and the actual price. Previous studies (Monroe & Chapman, 1987; Thaler, 1985) propose that PTV is a function of the current deal price and a buyer's internal reference price. If consumers encounter prices lower than their reference price, they perceive gains; if they encounter prices higher than their reference price, they perceive losses (Han et al., 2001). As empirically confirmed by prior studies (Monroe & Chapman, 1987; Thaler, 1985; Urbany, Bearden, & Weilbaker, 1988), PTV is positive if the actual price is less than the buyer's reference price, zero if they are equal, and negative otherwise (Monroe, 1990).

Meanwhile, Grewal et al. (1988) determine perceived acquisition value (PAV) associated with the perceived benefit acquired from the product quality relative to the price. According to Monroe and Chapman (1987), acquisition value as a value-based strategy involves emphasizing the value of acquiring the product. In economic theory, the value is equivalent to the reservation price or the maximum acceptable price that the buyer is willing to pay. Accordingly, Monroe (1990) explains PAV by comparing a buyer's maximum acceptable price to the current offered price. Thus, this study applies the following formulas for the conceptual calculation of transaction and acquisition values as proposed by Monroe (1990) for the case of the online environment: Perceived transaction value (PTV) = internal reference price (IRP) – price (P); and perceived acquisition value (PAV) = maximum acceptable price (MAP) – price (P).

In their study, Grewal, Iyer, Krishnan, and Sharma (2003) demonstrate that perceived transaction value (PTV) in the online shopping environment is higher when buyers have the ability and/or apply search tools to find better results that fit their needs. Admitting that price comparison sites provide buyers with opportunities for searching and evaluating alternatives, the current study predicts a positive relationship between buyers' usage of price comparison sites and its effects on PTVs. Also, according to the previously predicted effect of price comparison site information on the increase in the level of internal reference price perception, the presence of the price comparison site information should result in the increase in the perceived acquisition value following the formula proposed by Monroe (1990). Thus, online buyers' PTVs are likely to be higher when they are provided with comprehensive price information from price comparison sites than when they are not.

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