

Contents lists available at [ScienceDirect](#)

IJRM

International Journal of Research in Marketing

journal homepage: [www.elsevier.com/locate/ijresmar](http://www.elsevier.com/locate/ijresmar)

# The competitive implications of a “no-haggle” pricing strategy when others negotiate: Findings from a natural experiment☆

Xiaohua Zeng<sup>a,\*</sup>, Srabana Dasgupta<sup>b</sup>, Charles B. Weinberg<sup>c</sup>

<sup>a</sup> College of Business, City University of Hong Kong, Hong Kong, China

<sup>b</sup> Beedie School of Business, Simon Fraser University, Canada

<sup>c</sup> Sauder School of Business, University of British Columbia, Vancouver, Canada

## ARTICLE INFO

### Article history:

First received on January 26, 2015 and was under review for 9 months  
Available online xxxx

Area Editor: Harald J. van Heerde

### Keywords:

Pricing  
Competitive analysis  
Differentiation  
Bargaining  
Automobile market

## ABSTRACT

While the prices of many products such as automobiles, boats, jewelry and musical instruments are commonly negotiated, many firms have been offering their consumers the option to purchase at a fixed price. This research examines the impact of a firm's choice of a no-haggle, fixed price policy in a market where its competitors continue to negotiate. Using the automobile manufacturer, Toyota Canada's Access Program as a context, we find that unilaterally introducing a fixed price policy led to higher prices for both the fixed price firm and its closest negotiating competitor in the family car market. Despite the price increase, sales remained unchanged. For the entry level models, however, prices remained the same but sales experienced an increase. As competitors could have followed suit and introduced a fixed price policy, this suggests the possibility of an asymmetric price-policy equilibrium in the market. After ruling out alternative explanations, we conclude that the effects on prices and sales are due to the unilateral move to a no-haggle price that allows Toyota to differentiate itself from its competitors.

© 2016 Elsevier B.V. All rights reserved.

## 1. Introduction

In many markets, negotiation is the norm. Customers almost never pay the sticker price for a car, while many brick and mortar stores, such as Best Buy, allow their managers and salespeople to adjust price to close a sale. The rationale behind allowing consumers to negotiate is that it serves as a price discrimination mechanism: it is a well-known economic result, that for a firm with market power, any form of price discrimination leads to higher profits (Mussa & Rosen, 1978). For many consumers, however, negotiation or haggling is often an unpleasant, complicated and time-consuming task. Seeking to play on consumers' growing dislike of haggling, many “no-haggle” or “one-price” firms have been successful by promising the same price to all buyers. This was an important part of the GM subsidiary, Saturn's strategy (1990–2010; Autobyte, 2007), and more recently, that of Fiat, Lexus and Tesla dealers (Automotive News, 2011; Northrup, 2015; Rubenoff, 2014). CarMax ([www.carmax.com](http://www.carmax.com)), the largest used car dealership in the U.S., also operates on a similar premise. No-haggle prices are also emerging in other traditionally negotiated markets: Crystal-Pierz, a chain of dealers for the boat manufacturer, Tracker Marine, have started advertising no-haggle prices for their products.<sup>1</sup> High-end jewelry stores, such as Melrose ([www.melrose.com](http://www.melrose.com)), are selling their products online at fixed prices, allowing

☆ The work described in this paper was supported by a grant from the Research Grants Council of the Hong Kong Special Administrative Region, China [Grant CityU150309] and a grant from the Social Sciences and Humanities Research Council of Canada.

\* Corresponding author. Tel./fax: +852 3442 5749x0346.

E-mail address: [xiaohua.zeng@cityu.edu.hk](mailto:xiaohua.zeng@cityu.edu.hk) (X. Zeng).

<sup>1</sup> The no-haggle pricing policy is described in the company's website <http://www.trackerboats.com/about/no-hassle-pricing.cfm>.

consumers to avoid in-store haggling. A priori, however, it is not clear how committing to a single price for all consumers and foregoing the ability to price discriminate can give a firm a strategic advantage. More specifically, we ask the following question: in a market where negotiation is the norm, how does one firm's unilateral move to a one-price, no-haggle strategy affects its and its competitors' prices and sales?

An examination of the literature on the choice between a no-haggle price and negotiation does not provide a satisfactory answer to our question (see Table 1). Most studies (e.g., Bester, 1993, Wernerfelt, 1994) find that the equilibrium pricing strategy is a symmetric one, i.e., all firms either decide to haggle or not to. Only two studies (Bester, 1994, Desai & Purohit, 2004) consider the possibility of firms choosing different pricing strategies in equilibrium. Bester (1994) shows that, as consumer search costs increase, more firms have a greater motivation not to haggle, while in Desai & Purohit (2004), choosing different pricing strategies serves as a means to segment the market between consumers with different costs of haggling. While both of these studies provide us with an understanding of why a firm may be motivated to switch to a no-haggle price, the precise effect that it may have on key strategic variables such as prices and sales, is not so clear.

We seek to understand the empirical impact of a unilateral no-haggle pricing strategy on sales and prices by examining the Canadian automobile market where, in the early 2000s, Toyota Canada introduced a one-price policy for its new cars called the "Access Toyota Program". The major feature of the program was no-haggle pricing. It is also important to note that Toyota's objective was not just to change the price format: a key focus of the program was to improve service quality among their dealers. Thus, the program went beyond a simple change in pricing strategy, as the lack of negotiation changed the nature of the customer-dealer interaction. The program was launched across all Canadian provinces with the exception of Ontario, where it was disallowed due to provincial regulations. This creates a natural experiment that allows us to explore the competitive nature of a no-haggle price strategy in a market where negotiation continues to be the norm. We examine the effect of Toyota's program not just on itself but also its closest competitor, Honda, who continued to negotiate even after Toyota introduced the Access Program. Our primary analysis is based on the two largest car segments in Canada for Toyota, small cars (e.g., Toyota Corolla and Honda Civic) and family cars (e.g., Toyota Camry and Honda Accord). Extending our analysis to include other categories (minivans and SUVs) yields consistent results.

For our analysis, we use sales and used car prices at the model level, e.g., Toyota Corolla. Since the sales of new cars are available both before and after the program was implemented, this allows us to take advantage of the natural experiment and establish the effect of the program. On the pricing side, however, data are limited by the absence of pre-program new car prices and thus our ability to directly measure the impact of the program on prices is weakened. To overcome this constraint, our primary analysis of prices is based on used cars for which we have price data both before and after the program, rather than new cars. Using prices from the secondary market to infer behavior for new products is a well-established approach in the literature, especially for the automobile market (e.g., Esteban & Shum, 2007, Purohit, 1992, Sullivan, 1990). The rationale is as follows: If, for example, prices increase in a market for new goods, as demand for goods is more income elastic, demand will shift to the secondary market, pushing prices up (Bresnahan & Yao, 1985). In other words, used car prices are not simply a proxy for new cars, but they are directly impacted by changes in the new car market. Thus, by determining the effect of the program on the used car market, we can

**Table 1**  
Previous studies on haggling versus fixed price policies.

Paper	Theoretical/ Empirical	Monopoly/ Competitive	Symmetric/ Asymmetric equilibrium	Key assumptions	Major findings
Riley & Zeckhauser (1983)	Theoretical	Monopoly	N/A	The seller searches for a buyer from a sequence of consumers	A monopolist is better off with fixed pricing as haggling encourages buyers to refuse purchases at higher prices.
Bester (1993)	Theoretical	Oligopoly	Symmetric	Sellers can control product quality	Fixed pricing involves moral hazard whereas haggling is unlikely to survive when competition is high.
Bester (1994)	Theoretical	Oligopoly	Asymmetric	Buyers do not know a seller's pricing policy until they visit the store	As buyer search costs increase, more firms have a greater motivation not to haggle.
Wernerfelt (1994)	Theoretical	Duopoly	Symmetric	Buyers incur inspection cost prior to purchase	Under certain conditions of low search costs and a high level of competition, sellers may choose to haggle to shield themselves from Bertrand competition.
Wang (1995)	Theoretical	Monopoly	N/A	There is display cost in both policies	When haggling and fixed pricing entail the same costs, the seller is better off haggling.
Arnold & Lippman (1998)	Theoretical	Monopoly	N/A	The seller is uncertain about buyer valuations and bargaining abilities	Fixed price is used as long as the mean (regardless the distribution) of buyer bargaining ability is sufficiently high.
Adachi (1999)	Theoretical	Duopoly	Symmetric	Consumer valuation is heterogeneous and can be identified by sellers	Fixed pricing mitigates the fear of buyers that they might be exploited once they start haggling, but it results in intensified competition.
Desai & Purohit (2004)	Theoretical	Duopoly	Symmetric or asymmetric	Consumers are heterogeneous in haggling costs	Adopting different pricing formats allows duopoly firms to differentiate.
This paper	Empirical	Duopoly	Asymmetric	N/A	Empirically demonstrates the existence and impact of an asymmetric pricing equilibrium on market prices and sales.

Download English Version:

<https://daneshyari.com/en/article/5033774>

Download Persian Version:

<https://daneshyari.com/article/5033774>

[Daneshyari.com](https://daneshyari.com)