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Purchase decision regret: Negative consequences of the Steadily Increasing Discount strategy

Colin B. Gabler^{a,*}, V. Myles Landers^b, Kristy E. Reynolds^c

^a College of Business, Copeland Hall 530, Ohio University, Athens, OH 45701, United States

^b Department of Marketing, Saunders College of Business, Rochester Institute of Technology, 105 Lomb Memorial Dr., Rochester, NY 14623, United States

^c Department of Management and Marketing, Culverhouse College of Commerce, The University of Alabama, Box 870225, Tuscaloosa, AL, United States

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ABSTRACT

The Steadily Increasing Discount pricing strategy pits product scarcity against a future discount and forces consumers to make a choice between cost savings and the potential risk of missing the purchase opportunity. Dual non-student samples provide insight into the regret associated with this decision. The first study finds that product scarcity increases both action regret (purchase) and inaction regret (non-purchase) while the level of discount only influences inaction regret. In study two, the individual characteristics of materialism and price consciousness both impact the decision to buy, only materialism influences purchase decision regret. Theoretically, the results reverse the omission bias, demonstrating that regret from inaction is more salient than regret from action in this purchase situation. The studies underscore the high-risk, high-reward nature of multi-period pricing for managers. While firms control product availability and discount levels, they cannot control their customers' personality traits. Therefore, they should make every effort to understand their customers before embarking on such a strategy.

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1. Introduction

Retail strategy and consumer shopping behavior have fundamentally changed. Shoppers are more deliberate than ever as retailers try to entice consumers to spend money on discretionary items (Banjo & Germano, 2014). In this post-recession shopping landscape, discount pricing is an even more prominent sales promotion tool (Rollins, Nickell, & Ennis, 2014). For example, managers utilize seasonal discounting to unload excess inventory and make room for newer merchandise. An emergent pricing strategy, the Steadily Increasing Discount (SID) manipulates scarcity (availability of the product) and the upcoming discount schedule to maximize profit and move merchandise (Gabler & Reynolds, 2013).

Consumers generally choose to overpay for a product they want rather than miss the opportunity altogether. However, while the SID may increase purchase intent, it may also create negative consequences, and thus, warrants examination. Indeed, persuading consumers to purchase products is an important marketing goal (Reynolds, Jones, Gillison, & Musgrove, 2012) but considering the need to establish loyalty and customer lifetime value, the risk of alienating, upsetting, confusing, or angering customers (Garaus, Wagner, & Kummer, 2015) is a

possibility that managers must consider when developing their pricing strategy.

The current research investigates the regret associated with such a discounting strategy and advances three contributions. First, the paper leverages expected utility theory (EUT) and the omission bias to explain consumer decision-making in a SID context. Next, study 1 examines the two key components of the SID, finding that while scarcity influences the regret associated with action and inaction, discount level only influences the latter. Study 2 takes place in a traditional retail setting, uncovering that two personal characteristics play a role in how consumers react to the SID strategy. Specifically, materialism and price consciousness both influence purchase likelihood; however, only materialism increases purchase decision regret.

These contributions have both practical and theoretical implications. For scholars, it tests neoclassical utility maximization principles in a consumer behavior context, challenging the assumption of what utility means to different people. Further, because inaction regret appears more salient than action regret, the results contradict the omission bias. Instead, the findings advance the 'inaction effect' described by Zeelenberg et al. (2002). For managers, the results uncover the major advantage and disadvantage of enacting the SID pricing strategy. On the one hand, it drives purchase intent, which can generate revenue. On the other, it has the potential to create regret among shoppers, which leads to other negative outcomes. These pros and cons make it a high-risk, high-reward strategy for managers. To optimize the SID

* Corresponding author.

E-mail addresses: gabler@ohio.edu (C.B. Gabler), vlanders@saunders.rit.edu (V. Myles Landers), kreynold@cba.ua.edu (K.E. Reynolds).

strategy, not only must managers consider product availability and discount levels before implementation, they should understand the personality traits of their consumers.

2. Theoretical development

2.1. Pricing and discounting

Existing pricing literature covers a range of topics, from reference points and price sensitivity to the implementation of specific pricing tactics (cf. Han, Gupta, & Lehmann, 2001; Kopalle & Lindsey-Mullikin, 2003; Tsiros & Hardesty, 2010). Pricing practices have evolved with the marketplace as scholars tackle emergent issues, such as online price search and mobile shopping (cf. Bodor, Klein, & Arora, 2015; Wang, Malthouse, & Krishnamurthi, 2015). Within this domain, scholars have also examined product scarcity and discounting schedules to predict consumer decision-making. Aydinli, Bertini, and Lambrecht (2014) argue that price promotions decrease consumer motivation to process a decision. The result is a quicker, more spontaneous response. For firms, the more effectively you can trigger a purchase, the better, simply because increased purchases equate to increased revenue (Reynolds et al., 2012).

However, consumers now have a plethora of information. For example, by merely looking at the price's final digit (e.g., \$6.99 versus \$6.97 versus \$6.24), individuals can determine a product's likelihood to go [or be] on sale (Uhler, 2014). Further, many retailers provide detailed information about inventory levels, price changes, and their strategies. Grocery retailers use this technique in everything from day-old bread to packaged meat nearing its due date (cf. Theotokis, Pramataris, & Tsiros, 2012; Chung and Li, 2013), while clothing retailers, consignment shops, department stores, and drug stores often label clearance sections with current and future discounts.

Pricing, then, remains a dynamic managerial tool (Grewal, Roggeveen, Compeau, & Levy, 2012), which managers use to create in-store experiences that differentiate themselves from other retailers (e.g., Kiran, Majumdar, & Kishore, 2012). For their part, consumers are more price conscious and savvy than ever (Grewal et al., 2012), and they still garner enjoyment and excitement from the shopping experience (Arnold & Reynolds, 2003). This puts pressure on retailers to create pricing schedules, such as multi-period pricing, that simultaneously optimizes profitability (cf. Kaltcheva, Winsor, Patino, & Shapiro, 2013) and attracts shoppers.

2.2. The Steadily Increasing Discount strategy

Multi-period pricing is an effective way for managers to reduce inventory and clear products from their shelves (Chung and Li 2013) while generating a buzz among consumers. One specific multi-period pricing strategy, the Steadily Increasing Discount (SID) has emerged to capitalize on the dueling forces of product scarcity and discount schedules. Online retailers such as Groupon.com, Woot.com, and Steepandcheap.com already implement SID to elevate interest and increase purchase intent (Coulter & Roggeveen, 2012). However, it could be particularly effective in brick and mortar outlets to move seasonal inventory or stimulate competition among shoppers. To implement SID, a store offers some product in limited supply, and then lowers the price incrementally until it has sold every item (Gabler & Reynolds, 2013). See Fig. 1.

Consumers must make a decision: guarantee the product by spending more money right now or risk missing the product by waiting for the discount to occur. This method is common in second-hand shopping settings (e.g., garage sales, consignment shops) which are becoming more important retail contexts (Grewal et al., 2012), and it is now gaining footing in mainstream retail. For instance, Chung and Li (2013) find that incremental discounts on perishable items as they approach expiration increase customer satisfaction in grocery stores.

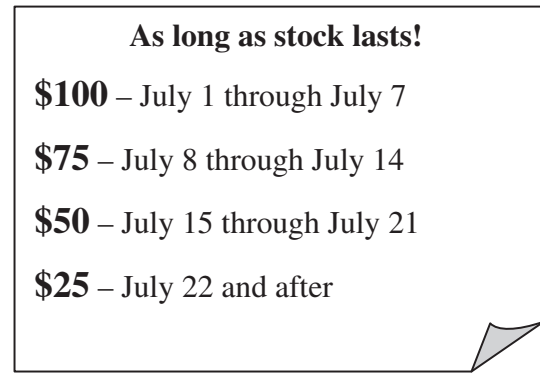


Fig. 1. Example of a price tag utilizing the Steadily Increasing Discount strategy.

Similarly, while not specifically advertised, Target uses SID to mark down products in increments of 15%, 30%, 50%, 75%, and 90% (Uhler, 2014) until the product sells out.

The SID strategy hinges not just on multi-period discounting but scarcity, or the number of products available. When a product is scarce, consumers find the product more valuable (Cialdini, 2008). Scarcity creates the illusion of value while limiting the available information and time to make the decision (Aggarwal, Jun, & Huh, 2011). Consumers see the effects of scarcity when luxury brands release limited edition products (Jang, Ko, Morris, & Chang, 2015), and even among big box store retailers like Target, which recently launched a limited Lilly Pulitzer collection (Schneier, 2015). Importantly for this research, limited quantity messages have a greater impact on consumer behavior than limited time messages (Aggarwal et al., 2011). Within an SID framework, the scarcer the product, the greater the purchase likelihood (Gabler & Reynolds, 2013). The SID strategy also depends how individual consumers maximize utility.

2.3. Expected utility theory in the SID context

Every purchase decision is a measure of how much one receives versus how much one gives up in a transaction. With regard to this evaluation process, managers can tease out different types of consumer responses, both rational and irrational (Hinterhuber, 2015). According to the expected-utility theory (EUT), individuals attempt to maximize the expected utility of their possessions in any uncertain decision (Von Neumann & Morgenstern, 1947). With unknown outcomes, individuals weigh the probability and utility of each possible outcome and make the optimal decision (Mongin, 1997).

Managers understand that consumers view utility in terms of either a price-quality or a price-sacrifice relationship, and firms use this to their advantage. Some consumers perceive utility as gaining the maximum value for the price incurred while others simply want to minimize the disutility associated from spending money (Monroe, 2003). With unlimited decision time and product availability, consumers tend to weigh the price-sacrifice relationship more heavily (Lichtenstein, Bloch, & Black, 1988). However, when firms restrict either time or availability, consumers lack the ability to process all of the available information. In this case, price acts more as an indicator of quality than monetary sacrifice, shifting the utility formation process toward the price-quality relationship (Suri & Monroe, 2003).

Because the SID strategy employs the restriction of scarcity with a discount, the outcomes are unknown and, thus, the decision is uncertain. Individuals have less time to process the information and have incentives to both buy now and buy later. According to EUT (Mongin, 1997; Von Neumann & Morgenstern, 1947), an individual will aim to maximize utility by gaining the most value for the minimum price. However, they also consider other resources, such as time and effort (Punj, 2012), which affect overall utility. While EUT has predicted

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