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Executive Summaries

This section provides a concise, nontechnical summary of each article in the current issue of JR focusing on its strategic implications for management.

Consumer Response to Package Downsizing: Evidence from the Chicago Ice Cream Market

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Package downsizing is the marketers' strategy of reducing the volume of a product per package such that the new size replaces the old one. In recent years, package downsizing has become common among the leading producers of consumer package goods in the United States. However, despite its prevalence, little is known about the causes and consequences of package downsizing as a marketing strategy.

Presumably, package downsizing may serve as a strategy to implicitly increase prices. If a given percentage reduction in content per package is not accompanied by an equivalent percentage decrease in package price the resulting unit price of the new product is higher. However, for this strategy to be effective the expected returns to package downsizing should be higher than raising the package price directly. The relative returns to these alternative strategies depend on consumer response to price and package size, as measured by price and package size elasticities of demand.

In this research, we investigate the extent to which consumers have different sensitivities to package price and package size in order to shed light on the managerial implications of package downsizing. Specifically, we measure and compare price and package size elasticities of demand for bulk ice cream. To do so, we estimate a well-established econometric model using household scanner panel data on bulk ice cream purchases in Chicago between 1998 and 2007.

Our main finding is that consumers are less responsive to package size than to price; the demand elasticity with respect to package size is approximately one-fourth the magnitude of the demand elasticity with respect to price. This finding provides evidence that marketing managers can use downsizing as a hidden price increase in order to pass through increases in production costs, and meanwhile maintain or increase profits. For example, in highly competitive environments managers may prefer to maintain existing prices or avoid relatively large increases. That is, in the face of increasing production costs managers would seek alternative strategies to maintain profit margins. Our results show that package downsizing can be a viable strategy.

Furthermore, we find that consumers switch to other products in response to package downsizing and that they switch more heavily to products with larger package size. Also, our findings imply that managers should be wary of the demographics of target consumers in making downsizing decisions. For example, the negative impacts of downsizing of products that appeal to working households can be relatively low, whereas downsizing of products that appeal to larger households can have relatively large negative impacts.

We discuss the question of why consumers are more sensitive to changes in price than to changes in package size. We highlight two possible factors: (i) the differentials in cost of acquiring price and size information; (ii) the visual biases in estimating size effects. For example, it is possible that some consumers may check an item's price but may not engage in more costly size evaluation; therefore they are less sensitive to changes in size. Similarly, it is possible that consumers who check an item's price may rely on visual estimation of its package size. In this case, consumers would be less sensitive to the package size if they underestimate the change in size.

Shopper Response to Front-of-Package Nutrition Labeling Programs: Potential Consumer and Retail Store Benefits

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Consumers' concern with health and wellness is at an all-time high. Many consumers want to buy more healthful products, and many major retail chains such as Walmart, Safeway, and Hannaford have responded with front-of-package (FOP) nutrition labeling systems designed to help shoppers identify healthier alternatives at the retail shelf.

As grocery retailers continue to dedicate increasing amounts of resources to health and wellness using point-of-purchase initiatives, it has become increasingly important for them to understand the implications of such programs. However, only limited research has considered whether FOP systems actually help consumers select more healthful products. In addition, to our knowledge, no prior research has considered the implications of voluntary FOP nutrition labeling from the retailer's perspective.

Thus, the purpose of our research was to assess the potential benefits of different types of FOP nutrition labeling systems for *both* consumers and retailers. This research tested and compared two different types of FOP systems: (1) a "reductive" labeling system in which a reduced amount of quantitative nutrition information (e.g., calories, saturated fat, sodium) is extracted from the Nutrition Facts panel and communicated on the front of the package, and (2) an "evaluative" labeling system in which interpretive information about a food's *OVERALL* healthfulness is communicated via a FOP icon (e.g., a product qualifies to display an evaluative icon if it satisfies predetermined nutritional guidelines, or it qualifies to receive between 0 and 3 stars rating based on predetermined guidelines). The Grocery Manufacturers Association and Food Marketing Institute's "Facts Up Front" icon is an example of a reductive FOP system, whereas Walmart's "Great for You" icon and the Institute of Medicine's "Healthy Stars" icon are examples of evaluative FOP systems.

First, our findings across two studies suggest that consumers can benefit from FOP nutrition labeling programs. Compared to a control condition in which no FOP information was provided for different food product alternatives at the retail shelf, consumers displayed more positive product evaluations and higher purchase intentions for objectively *healthier* products when evaluative FOP nutrition information was provided by the retailer. Further, adding the evaluative FOP nutrition information resulted in more negative evaluations and lower purchase intentions for objectively *UNHEALTHIER* products. When the reductive FOP labeling system was included for a category, it had little or no effect on consumers' food product evaluations purchase intentions, or choices. However, when *both* types of icons were presented together in a supplementary fashion on the FOP, consumers' evaluations, purchase intentions, and choices were again positively impacted.

Our findings suggest that retailers can also benefit from FOP nutrition labeling programs. Results indicate that retailers that offer *either* evaluative or reductive FOP nutrition information to assist consumers – or a combination of *both* types of information – are viewed as more concerned about their customers' well-being compared to retailers that do not provide such information. Consumers also display more positive attitudes and higher future patronage intentions toward retailers that voluntarily participate in FOP nutrition labeling programs. Retailers' concern for their customers is shown to partially account for the effects of FOP nutrition information provision on these attitudes and patronage intentions.

Therefore, overall findings indicate that the use of either an evaluative FOP nutrition labeling system independently, or the use of *both* evaluative and reductive FOP labeling systems in a complementary fashion, can benefit both retailers and consumers and create a "win-win" for both parties. As shopper marketing initiatives continue to increase in scope and importance, FOP nutrition labeling programs potentially may help promote consumer health and welfare, while simultaneously offering retailers important non-price competitive differentiation and advantages.

Improving the Effect of Guarantees: The Role of a Retailer's Reputation

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A retailer's reputation is an important cue that consumers use in their shopping decisions. Most research on reputation conceptualizes this cue in terms of an overall halo effect that signals the store's quality. Another way to think about reputations, however, is to view them as linked to specific associations that go along with the store. From this perspective, two retailers with very different reputational associations can both enjoy an excellent overall reputation. For example, Nordstrom and Wal-Mart both have excellent reputations; the former is based on superior customer service, while the latter is based on everyday low prices. In the research presented in this paper, we examine reputations that are based on specific associations, such as Nordstrom's focus on service, or Wal-Mart's focus on everyday low prices.

We show that retailers that enjoy positive reputations based on specific associations need to be careful about the tactics they employ to maintain or enhance that position. This is because the new associations are judged in terms of how well they match with the already established reputation. Nordstrom's employing service excellence tactics (e.g., delivery guarantees involving shipping and returns) matches with their overall service reputation, while Wal-Mart's offering "price-matching guarantees" (PMG) matches with their overall low price reputation. In contrast, a consumer might find Nordstrom offering a PMG (which they actually do) or Wal-Mart offering an