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The Contingent Effects of Semantic Price Cues

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Abstract

This research endeavors to understand the contingent effects of semantic price cues while taking into consideration several important contextual factors. These factors include where the customer encounters the semantic cue (in-store, at-home, online), whether the consumers' shopping goal is hedonic or utilitarian in nature, the impact of shopping alone or with a companion, as well as the consumer's motivation to process the product information. Findings indicate that a within-store cue (compared to a between store cue) enhances evaluations when the shopping in a store with a utilitarian goal, when shopping alone, and when their motivation to process is low. A meta-analysis of the results demonstrates the robustness of the differential impacts of these semantic cues.

Keywords: Semantic cues; Pricing; Retailing; Perceived quality; Performance risk perceptions

Retailers frequently compare their sale price with a reference price with the goal of stimulating sales. But how that offer is conveyed to customers can impact how consumers evaluate the deal and in turn how it impacts sales. Extensive research has shown that how the price is presented can impact customer evaluations and behaviors to the point of demonstrating that customers will purchase more when they see a sales announcement even if prices are not reduced (e.g., Krishna et al. 2002; Lichtenstein and Bearden 1989; Raghubir and Corfman 1999).

In this research, we explore the impact of semantic cues. Semantic cues are formats used by retailers to describe their price offer by comparing a sale price to a higher reference price. Some frequently seen formats are, "Compare at $X, Our Price $Y," versus "Regular price $X, Sale price $Y." By framing the comparison in this manner, the lower sale price is perceived as offering greater value (e.g., Krishnan, Biswas, and Netemeyer 2006; Lichtenstein, Burton, and Karson 1991).

Such pricing strategies are widely used by a variety of retailers, including TJ Maxx and Sears, both of which have established their value differential using such practices. Yet despite the prevalence of semantic cues as a differentiating strategy for retailers, there is relatively little research into the differential impact of these semantic cues. Semantic cues can be described as either within-store or between-store cues (Grewal, Marmorstein, and Sharma 1996). *Within-store cues* are those that describe prices that previously existed within the store, "Regular price $X, Sale price $Y." *Between-store cues* suggest that the price is being compared to a competitor's price, "Compare at $X, Our Price $Y."

Previous research has found that situational factors moderate the impact of these between-store and within-store cues. For example, when a customer is *in a store* and encounters a between-store cue they evaluate the offer to be similar to (Krishnan, Biswas, and Netemeyer 2006) or worse (Grewal, Marmorstein, and Sharma 1996) than if it was presented as a within-store cue. In contrast, when a consumer is *at home* and encounters a between-store cue they evaluate the offer more positively than a within-store cue (e.g., Krishnan, Biswas, and Netemeyer 2006).

Past research on the contingent effects of semantic cues has focused on perceptions of value. One objective of our research is to generalize it to a broader evaluation context: quality

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perceptions which we operationalize as the uncertainty of the quality level (Roggeveen, Grewal, and Gotlieb 2006; Shimp and Bearden 1982). A second objective is to generalize these effects across a broader range of situational factors: location (in store, at home, online), the shopping goal (hedonic, utilitarian), shopping alone or with a companion, and level of motivation.

Background

Retailers frequently advertise price offers using semantic cues. Semantic cues allow the manner of the reference price to be framed while keeping the discount size constant. Much of the previous literature has varied the amount of the reference price (e.g., Biswas and Blair 1991; Kopalle and Lindsey-Mullikin 2003; Lichtenstein and Bearden 1989; Urbany, Bearden, and Weilbaker 1988) or the amount of the discount (e.g., Raghubir and Corfman 1999) and has focused mainly on value perceptions.

In this paper we focus on generalizing the effects to perceived quality. In today's cost conscious marketplace consumers are increasingly turning away from brand name products and trying lesser known brands and store brands, making perceptions of quality more salient. By understanding if different semantic cues can enhance perceived quality, retailers can address quality concerns in a cost effective manner. The semantic cues influence on perceived quality is likely affected by whether the consumer uses the reference price or the discounted sale price to form these perceptions. If the reference price is the price that is used to assess the quality perception, it will likely result in higher quality perceptions (Dodds, Monroe, and Grewal 1991) than if the discounted sale price is used.

By setting up a reference price comparison, the semantic cue creates a standard against which the offering price is compared. This reference price facilitates the evaluation process and allows buyers to make judgments about the product (Grewal, Monroe, and Krishnan 1998). The impact of the semantic cue is likely to vary depending on the type of semantic cue encountered as well as where that cue is encountered.

Where it is encountered

In their research, Grewal, Marmorstein, and Sharma (1996) build on the economics of information theory (Stigler 1961) and research on decision contexts (e.g., Hoch and Deighton 1989) to predict that the effectiveness of semantic cue types is contingent on the decision context. They suggest that, in a store, a within-store price comparison semantic cue is likely to be more effective than a between-store price comparison cue as the consumer, having traveled to a store, has little incentive to consider information about prices at other stores – s/he is more likely to have already invested time and effort (Marmorstein, Grewal, and Fishe 1992) and would prefer information that would help in assessing the given product in a store.

As such, Grewal, Marmorstein, and Sharma (1996) suggest that these within-store cues will be viewed as confirming evidence that they are getting the product at a good price. Thus, in the store, within-store cues will be more influential and consumers are more likely to utilize the reference price in the within-store cue to assess perceived quality. They are likely to feel less confident regarding the between-store comparison as they have less opportunity to verify it, thus making the between-store cue less influential. Grewal, Marmorstein, and Sharma (1996) find support for these predictions while Krishnan, Biswas, and Netemeyer (2006) do not find support for it. Instead these authors suggest that consumers are unlikely to expend the cognitive effort to differentiate between-store and within-store cues and instead simply use the cue as a reference point to access the offer. As such, they hypothesize and find no difference between the cues.

When a consumer is at home (or possibly online), s/he is expected to prefer information that evokes between-store comparisons, as s/he is more likely in a price comparison decision mode. Such price offers are expected to reduce the need to search for price comparison information as the between-store cue "compare at" implies that if a consumer extends the effort s/he could verify the accuracy of these claims. Thus, the reference price in these between-store cues is expected to influence how the product is evaluated. Consistent with this, Krishnan, Biswas, and Netemeyer (2006) found that when the customer is at home, the between-store cue results in higher evaluations than within-store cues. Grewal, Marmorstein, and Sharma (1996) also find directional support for this in their two studies. Thus, there is not uniform replication of the effects across these studies.

Generalizability

To better understand the generalizability of the role of within-store versus between-store semantic cues, we conduct two mini-meta-analyses for the moderate discount conditions based on studies reported by Krishnan, Biswas, and Netemeyer (2006) and Grewal, Marmorstein, and Sharma (1996). We used standard meta-analytical techniques (e.g., Palmatier et al. 2006). Our effect size estimate (η) was calculated from the contrast of the within-store versus the between-store cue within either the at-home or the in-store condition.[3] We also assessed whether the effects sizes were homogeneous across studies, which study's effects were outliers, and the number of null studies needed to reduce the significance from its present level to the .05 level.

We first examined the semantic cue effects when encountered in a store. The average weighted η is .14, suggesting an overall small to medium size effect, which is significant and it would take 11 null effects to reduce the level of significance to the .05 level. It must be noted that the overall effects are not homogeneous. The effect of semantic when encountered at home was an average weighted η of .54 suggesting an overall large effect size. The overall average effect is significant and 108 null effects would reduce the level of significance to the .05 level. Given

[3] We calculate the effect size for each study using the standard test statistics. We use r as our effect size measure. The formulae used to calculate the effect sizes are shown here – r from t: $r = \sqrt{(t^2/(t^2 + df))}$ where $df = n_1 + n_2 - 2$; r from F: $r = \sqrt{(F/(F + df_{error}))}$ where F indicates any F with $df = 1$ in the numerator.