ELSEVIER

Journal of Retailing 87 (4, 2011) 479–488

Journal of Retailing

Reduce Content or Raise Price? The Impact of Persuasion Knowledge and Unit Price Increase Tactics on Retailer and Product Brand Attitudes

Luke Kachersky *

Fordham University Schools of Business Administration, 441 East Fordham Road, Bronx, NY 10458, United States

Abstract

This research investigates consumer reactions to the practice of increasing unit prices of products by either reducing product content or increasing total prices. Using pricing tactic persuasion knowledge (PTPK) as a lens for understanding, I predict that total price increases garner less favorable attitudes toward retailers for relatively low PTPK consumers, while content reductions garner less favorable attitudes toward product brands for relatively high PTPK consumers. The results of an experiment with a nationally representative sample of U.S. consumers support these asymmetric predictions about PTPK consumer segments as well as expectations about the underlying psychological processes.

Keywords: Retail pricing; Unit prices; Persuasion knowledge; Retail consumer behavior; Attitudes

Regardless of the marketing channel member who first instigates a unit price increase, retailers are at the front line executing those changes. For decades unit price increases have been implemented beyond consumer awareness by hiding beneath differential thresholds, or the point at which a stimulus changes enough to where a person will consciously notice it. Unit price increases reflect an increase in the currency per unit of product obtained. This can be done by adding only a few pennies to a price without altering its leftmost digit (e.g., changing from $2.95 to $2.99; Thomas and Morwitz, 2005), a unit price increase tactic called a *total price increase*, or by keeping the price of a product constant while reducing content in barely perceptible ways (e.g., not reducing the physical package size despite the reduction in content, or reducing the package size proportionate to the original dimensions; Chandon and Ordabayeva, 2009), a unit price increase tactic called a *content reduction*. For example, Folgers coffee recently reduced a popular package of its coffee from thirteen ounces to eleven ounces, yet the product still retails for the same price under the same stock keeping unit number. Implementing unit price changes in these ways has worked for so long because, as intended, most consumers did not notice the changes, and if they did, word of the change would not spread far. This lack of consumer awareness seems to be fading. As it does, it is imperative for retailers and other channel members to understand consumer reactions to these tactics.

Consumers have become more educated and given a more far-reaching voice with the ubiquity of the Internet. Combining these two trends, it is not surprising that today's consumers are quick to notice even minute changes and to share that news with the rest of the world. For example, the Consumers' Union website, *The Consumerist*, has dubbed the practice of reducing content "The Grocery Shrink Ray," (Consumerist.com, 2010). Its readers from the general population regularly submit photographic examples of the phenomenon that they observe on their local retail shelves. Even major national media outlets such as NBC News and *The New York Times* have been publicizing the practice; a recent article on the topic reached number three on NYTimes.com's "Most E-Mailed" list and appeared on the front page of the print edition (Clifford and Rampell, 2011). Prior research has explored *if* consumers notice differential thresholds in pricing (cf. the controversy on the psychophysics of prices, Kamen and Toman, 1970), and largely concluded that consumers did not. Thus, prior work had not questioned what happens when consumers do notice such changes; if few consumers were noticing the changes, it was not a practical question to ask. Yet today, it is clear that greater numbers of consumers are noticing, and are spreading the information to others. Therefore, the purpose of this research is to address this newly relevant question: what happens when consumers *do* notice unit price increases? Moreover, does the outcome depend on the manner of price increase? Finally, do outcomes vary across segments of

* Tel.: +1 718 817 5921.
E-mail address: kachersky@fordham.edu

0022-4359/$ – see front matter
doi:10.1016/j.jretai.2011.08.001

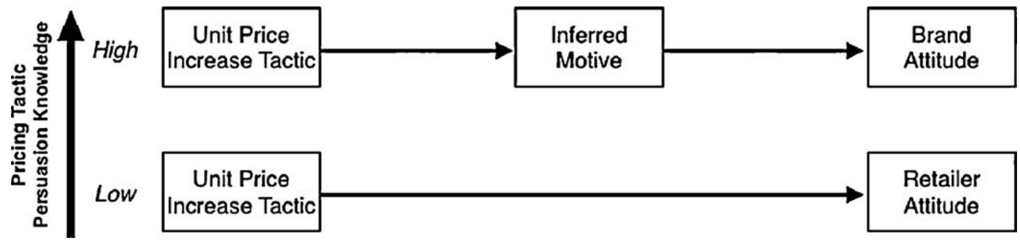

Fig. 1. The influence of unit price increase tactic on product brand and retailer attitudes.

consumers? While answers to these questions are of theoretical importance in understanding differential thresholds in pricing, in today's marketing environment they are of increasing practical importance as well.

In this paper, the *persuasion knowledge model* (PKM; Friestad and Wright, 1994) is used to explain and predict consumer reactions to unit price changes. The PKM is a normative account of how people construe and react to persuasion attempts. A recent extension of the PKM demonstrated that consumers have varying levels of knowledge about the intent underlying marketers' pricing tactics (Hardesty et al., 2007), and that consumers having relatively higher levels of this *pricing tactic persuasion knowledge* (PTPK) tend to react more negatively to persuasive pricing tactics. The present paper extends this work to the domain of unit price increases, also adding important insights about the cognitive reactions to unit price changes and their resulting implications for attitudes toward two potential persuasion agents—product brands and retailers.

In an experiment with a nationally representative consumer panel this research makes three major contributions. First, I show that higher levels of PTPK lead consumers to infer different motives behind the two types of unit price increases, with content reductions being attributed to firm motives to increase profit margins and total price increases being attributed to firm motives to maintain profit margins in the face of situational factors such as cost inflation. Second, I show that higher levels of PTPK lead consumers to look less favorably on product brands when the product content is reduced compared to when the total price is increased, and that this outcome is driven by inferred motives. Third, in contrast to high PTPK consumers, lower levels of PTPK lead consumers to alter their evaluations not of the product brand but of the retailer. In similar contrast, low PTPK consumers look less favorably on total price increases than on content reductions, and this outcome is not based on inferred motives. The predicted processes and outcomes for each PTPK consumer segment are depicted graphically in Fig. 1.

The rest of this article is organized as follows: first, I discuss how persuasion knowledge, particularly pricing tactic persuasion knowledge, may influence both the psychological process and the outcomes of consumer reactions to unit price changes. Second, the article presents the details and results of a study that tests and supports theoretical predictions about the influence of content reductions versus total price increases across consumers with varying levels of PTPK. Third, I discuss the theoretical and managerial implications of this work while also taking stock of its limitations.

Unit price increases and persuasion knowledge

Persuasion is the act of causing someone to do or believe something. According to the persuasion knowledge model (PKM; Friestad and Wright, 1994), regardless of an action's objective persuasive intent, when people perceive an action to be an attempt to persuade, they tend to think about that action differently. In the parlance of the PKM, subjective belief of persuasive intent causes a *change of meaning*. For example, a consumer's perception of a price can range from a construal as a simple presentation of information – the cost of access to a product – to a construal as a tactic intended to directly influence beliefs or behavior, undermining the consumer's agency. For example, Schindler et al. (2005) found that some perceive a price of "$190 + $10 shipping" as a simple presentation of information, while, to varying degrees, others view it as a tactic designed to make people believe they are getting a lower price (i.e., in the $190 range) than is actually offered (i.e., $200). In other words, perceived persuasive intent changes the meaning of "$190 + $10 shipping" from a simple presentation of the cost of product access to a more detailed, subjective understanding of the communication including the intent of the communicator.

Unit price increases may also be subject to such variation in perceptions of persuasive intent. Namely, people may perceive unit price increases as tactics intended to alter consumer behavior such that consumers continue to purchase the product despite the change. If such persuasive intent is perceived, then consumers' beliefs about the extent to which the action is designed to persuade should cause them to make additional inferences about it. If consumers perceive unit price increases as persuasion attempts, then what additional cognitive content should be added to consumer processing of the tactic? In general, when faced with price increases consumers tend to infer that firms are trying to increase their profit margins (Bolton et al., 2003). Relative to total price increases, content reductions tend to be less transparent because they can be implemented without changing the packaging at all or by changing the packaging in a way consumers are less likely to notice (Chandon and Ordabayeva, 2009). This type of subversion should lead consumers that notice content reductions to perceive them as having greater persuasive intent than total price increases have. In turn, content reductions should result in a stronger tendency of consumers to infer that a firm's motive for the unit price increase is to increase profit margins. However, this tendency is not likely to be universal among consumers; some consumers should be more apt than others to make such inferences about the motives underlying the two