

Retailers' Merchandise Organization and Price Perceptions

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Abstract

Retailers' presentation of merchandise to consumers is often organized by brand or by price to facilitate comparison and processing of competitive information. While such organization of product information is presumed to assist consumer decision-making, we suggest that sorting of alternatives on brand names strain cognitive resources more than a price sort, leading to differences in sensitivity to prices for a target product accompanying these two sorts. We conduct three studies to examine this issue and find that sorting of alternatives interacts with consumers' motivation and influences price perceptions. Our results add nuance to the findings from previous studies examining how assortment affects consumers' price sensitivity, and suggest that retailers whose appeal is not primarily price-based could benefit by presenting merchandise information sorted by brand name so as to increase perceptions of quality and value.

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Consumers have multiple options today across a broad variety of product categories, with the attendant challenge of evaluating a product while screening and interpreting a large amount of information on alternatives. It has been recognized that as retailers try to attract consumers by offering large product assortments, they also increase consumers' processing costs, paradoxically reducing their assortments' attractiveness (Boyd and Bahn 2009). Thus, to assist consumers in their choice task retailers organize and merchandise product categories by brand (e.g., Sony high-definition TV's being grouped together) or by price. On the Internet, consumers are empowered by electronic decision aids that assist them in filtering and sorting information (Haubl and Murray 2003), leading some to suggest that the most important benefit of online shopping to consumers is not greater product selection but electronic screening (Alba et al. 1997).

Prior research has established that sorting information on alternatives significantly reduces consumers' decision-making effort, improves decision quality (Diehl, Kornish, and Lynch 2003), and increases the importance of attributes included in the selection criteria (Haubl and Murray 2003). Consistent with this conclusion, Haubl and Trifts (2000) showed that sorting on price made consumers more sensitive to the price paid. However, Lynch and Ariely (2000) found that consumers paid higher average prices in the presence of a price sort than when it was absent, leading them to conclude that price sort did not reliably affect price sensitivity.

These conflicting conclusions raise an issue as to how sorting alternatives on price influences consumers' evaluations of products and prices. Furthermore, since consumers prefer to view competitive information arranged on attributes or alternatives (Ariely 2000), another related issue is whether alternatives sorted on price influence consumers' sensitivity to price differently than a brand sort. Though retailers present their merchandise in stores and online in several different ways, these two sorts are popular among retailers as they are simple to execute. Hence, these two types of sorts form the focus of this research.

Our conceptualization proposes to resolve contradictory results on the effects of price sort, and suggests that motivation to process information moderates the effect of sorting informa-

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tion on consumers' sensitivity to price. Specifically, motivation to process information makes consumers focus more on product attributes including price of a focal product when the accompanying alternatives are sorted on price rather than on brand names. We also demonstrate that cognitive difficulty experienced while processing information in these two sorts causes these differences in evaluation. We report three studies to test these predictions.

Conceptual development

Consumers often perform a primary task requiring an understanding of information on a product of interest (focal product), and a secondary task of managing information on competitive products. Behavioral researchers have been intrigued by people's inability to perform such multiple activities concurrently. "People have severe limitations on their ability to carry out simultaneously certain cognitive processes that seem fairly trivial" (Pashler 1994, p. 241). While not denying the interference created by concurrent tasks, it has been argued that if competitive information is managed effectively it could have a positive effect on the evaluation of a focal product (Ariely 2000; Hoffman and Novak 1996). This positive effect comes from the intrinsic nature of the information itself, while the negative effect stems from the additional cognitive resources required by such a task. The cognitive resources allocated to managing information on the alternatives will be integrally linked with the act of making sense of the main task of evaluating a focal product (Ariely 2000). A reduction in cognitive effort required to manage such information will free up cognitive resources required to integrate this information and make judgments about a focal product. Hence, ability to process information on a focal product will depend upon not only the cognitive effort devoted to the task but also the cognitive resources consumed when managing information on the accompanying alternatives (Kleinmuntz and Schkade 1993). The issue we investigate is how the sorting of alternatives influences consumers' ability to manage such information.

Effects of sorting

Sorting of alternatives can lower search costs for quality information by saving consumers the trouble of directly inspecting quality information on products (Alba et al. 1997; Diehl, Kornish, and Lynch 2003). If a sort does not produce such reductions in search costs, consumers are likely to express ambiguity about their product decisions and spend greater cognitive resources making sense of a sorted list (Ariely 2000). Baddeley (2000) argued that the ability to evaluate non-diagnostic information requires substantial attentional components of working memory and manipulating such a sequence may involve multiple mental operations (Lopes 1982; Teasdale et al. 1999). Choice sets created by structuring alternatives based on price or brand names are however not equivalent in decreasing consumers' cognitive burden when they make choices. Unlike product features like price that are precise, "brand name advantages are often ambiguous and associated with high uncertainty" (Simonson, Nowlis, and Lemon 1993, p. 365). For instance, a price of an

alternative being \$10 higher than a competing choice leaves little doubt about the additional monetary sacrifice required to purchase that product. But knowing a laptop from Dell is superior to one from HP or Toshiba is rather tentative and makes trade-offs between brands difficult to assess. Hence, a brand sort may strain consumers' cognitive resources and hamper their ability to process information about a target product. On the other hand, processing alternatives in a price sort will be cognitively less taxing and free up cognitive resources to process information about a target product. Consistent with this argument Haubl and Trifts (2000) found that when alternatives were sorted on an attribute, the perceived difficulty of comparison among products was significantly lower than when such information was not sorted on a specific attribute. This ease of comparison (or lack thereof) underlies the difference in the effects of brand and price sorts on the assessment of target product information.

Sorting and motivation to process information

Regardless of the effects of a sort on consumers' information processing, if they are not motivated to use the information, there is little reason for them to expend the necessary cognitive resources. Chaiken and Trope (1999) suggest that when there is motivation and ability to process information, consumers will scrutinize task relevant information. However, if there is low motivation to process information, or if the cognitive resources are constrained, consumers will rely on heuristics as such processing takes less effort. Given differences in the impact of brand name and price sorts on cognitive effort required to assess information on alternatives, when the alternatives are sorted on price, sufficient cognitive resources will be available to process information on a focal product. On the other hand, sorting on brand names will co-opt cognitive resources that would have otherwise been available to process the target information. Hence, in high motivation conditions, when alternatives are sorted on price, sufficient cognitive resources will be available to scrutinize target information. However, a brand sort will lead to a less effortful (heuristic) processing of target information. Also when motivation to process information is low, irrespective of how alternatives are sorted, a similar heuristic processing of target information will be expected.

Processing of price information

To develop hypotheses on how sorting of alternatives will influence consumers' judgments we consider when consumers use price information more to infer a product's quality or to assess its monetary sacrifice (Monroe 2003). In contexts that prevent consumers from systematically processing the available information, relatively less weight will be placed on the price-sacrifice relationship and price will be used more to infer a product's quality (Suri and Monroe 2003). However, when consumers process information systematically, attributes in addition to price will be used to judge a product's quality. In such a situation price will be used less as an indicator of quality and more

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