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The Impact of Retailer Price Strategy on Consumers' Choice Against the Background of Uncertain Price

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***Abstract*—Price is an important consideration in influencing consumer purchasing decisions, and consumers often fail to predict the price of a product they plan to purchase before entering an offline retail store. Therefore, the price strategy implemented by the retailer will influence the consumer's choice of the retailer. Based on the consumer's price perception and prospect theory, this study infers the conclusions of the retailer's price strategy on consumer choice under the uncertainty of price, and the respective conclusions are as follows: on one hand, in the case of uncertain prices, consumers will be more inclined to choose frequency discounting or retailers with everyday low pricing combined with occasional depth discounting. The order of choice is frequency discounting or everyday low pricing with occasional depth discounting retailers better than frequency discounting or everyday low pricing retailers, and finally is the occasional depth discounting retailers; on the other hand, when the price strategy of the retailer's larger discount is not correctly perceived by the consumer (underestimated), the chances of retailers being selected by the retailer with frequency discounting or everyday low pricing with occasional depth discounting strategies will not make a difference with retailer with frequency discounting or everyday low pricing, but still better than retailers with occasional depth discounting. According to the conclusion, relevant suggestions are proposed for offline retailers.**

***Keywords*—uncertain price; offline retailer; price strategy; consumers' choice**

I. INTRODUCTION

People face a variety of consumer issues and make purchasing decisions every day. The correctness of the decision will also affect whether people feel that they have made a successful transaction. For instance, if you need to buy a bottle of shampoo from a certain brand, there are three retail stores for you to choose from, retailers A, B and C. The average price of the same shampoo in the three retail stores is the same (calculated in a certain unit time, half a year or one year). Among them, retailer A often offers some small discounts, retailer B occasionally offers relatively large discounts, and retailer C often offers small discounts or larger discounts. Before you enter the retail store, you don't know the retail price of the item at each retail store. So how do you make your choice? Which retail store will you decide to enter to buy the goods you need? What will you use as the basis for your decision? Is it the long-term average price judgment? Or you may think that as long as the price of goods is cheaper, you will feel lucky; or you believe that you will make good luck this time and encounter a big discount.

There are many studies that show that price is an important consideration in influencing consumer purchasing decisions (Monroe 2003). Studies have also shown that consumers' perceptions of prices drive consumers' purchasing decisions more than actual prices (Alba et al. 1994; Krishna 1991; Krishna et al. 2002). Therefore, retailers use a variety of retail price strategies to influence consumer price perceptions, thereby affecting consumers' subsequent purchase decisions. Hoch, Dreze & Purk (1994) pointed out that the price strategies that retailers often use are divided into three types: the first is frequency discounting, which means that retailers often offer small discounts. The second is depth discounting, which means that retailers occasionally offer larger discounts. The third is the everyday low pricing, which means that the price of the products offered by retailers is a relatively low average price, similar to the price strategy of global retail giant Wal-Mart.

In the past, researchers have demonstrated how these three price strategies affect consumer price perception, but these studies are based on the price information that consumers already know in advance. And these studies focus on how consumers judge the average price of retailers using these price strategies, rather than how consumers choose retailers, because they believe consumers will always choose the retailer with the lowest perceived average price (Alba et al. 1994, 1999; Lalwani and Monroe 2005). However, in fact, unlike the current emerging online shopping, consumers usually cannot know the retail price of the current retail store before deciding which retail store to choose. Consumers make decisions about purchases based on previous shopping experiences at retail stores. Therefore, under the premise of price uncertainty, it is very important to understand how consumers choose different price strategies.

However, there are very few studies on how retailers choose to use different price strategies under the premise of price uncertainty. Alba et al (1994) studied the consumer's judgment on the average price of retailers using depth discounting and frequency discounting under the uncertainty of price and the choice of retailers. The results show that the average price of retailers with frequency discounting perceived by consumers is lower than that of retailers with depth discounting, and they are more inclined to choose retailers with frequency discounting. However, the experimental design of this study is to ask consumers about the average price and then ask their choice about the retailers. In this way, the consumer's decision on the retailer's choice is tantamount to being implied by the average price, thus affecting the real decision-making situation. Danziger, Hadar & Morwitz (2014) improved its shortcomings based on the previous research, and pointed out that under the uncertainty of price, consumers tend to choose those frequency discounting or everyday low pricing compared with occasional depth discounting retailers, and they prefer retailers with frequency discounting. It is also concluded that even if there is no difference in the average price perceived by the consumer, there will be a conclusion of the above choice.

However, today's retailers' pricing strategies are not just the above three, but often exist in two integrated forms, such as frequency discounting with occasional depth discounting, or everyday low pricing with occasional depth discounting. How the price strategy will affect the consumer's price perception, and how to influence the consumer's decision on the retailer's choice in the case of price uncertainty, has not yet been studied. At the same time, studies have shown that whether price discounts are perceived by consumers or correct perception will also affect consumers' price perception. Based on this, the purpose of this study is to solve the problem of how consumers choose retailers with different price strategies in the case of price uncertainty. At the same time, it is also important to understand whether the consumer's correct perception of price interferes with the decision of the retailer's choice.

II. Consumers' Price Perception and Prospect Theory

Research of Lalwani and Monroe (2005) has shown that relative prominence is a key factor in determining perception of average prices. When the frequency of discounts is more prominent, consumers will generate a perception of frequency discounting effect. When the size of the discount is more prominent, the consumer will generate a perception of the depth discounting effect. Krishna and Johar (1996) also found that when depth discounting is highlighted, consumers' perception of average prices over a range of prices would assume that the average price of depth discounting would be lower than the average price of frequency discounting.

When consumers choose retailers with uncertain prices, they tend to assess the price gap between the selected retailer and the comparison retailer to see if the price is high or low. If the selected retailer later finds that the selling price is lower than other retailers, it will be marked as "gained" and if it is found that the selling price is higher than other retailers, it will be marked as "lost". Because retailers who implement occasional depth discounting strategies tend to have higher prices, consumers will feel more "lost" and less "gained", and in contrast, retailers who implement frequency discounting and everyday low pricing strategies will make consumers feel more "gained" and less "lost". Retailers who implement frequency discounting with occasional depth discounting, or everyday low pricing with occasional depth discounting hybrid pricing strategies, will allow consumers to perceive more "great" gains and less "small" losses than the former. Kahneman, Daniel, and Amos Tversky (1979) pointed out in the prospect theory that people avoid risk when they are faced with gains, but prefer risk when they face losses, and losses and gains are relative to the reference point, therefore, changing the views people use when evaluating things can change people's attitudes towards risk. At the same time, people's sensitivity to losses and gains is different, and the pain of losses is far greater than the pleasure of gains. This study suggests that consumers are more likely to choose retailers with frequency discounting or retailers with everyday low pricing combined with occasional depth discounting. The order of choice is frequency discounting or everyday low pricing with occasional depth discounting retailers better than frequency discounting or everyday low pricing retailers and finally is the retailers with occasional depth discounting.

Studies have also shown that whether price discounts are perceived or correctly perceived by consumers will also affect consumers' price perception. Blair and Landon (1981) have done an experiment in which selling prices of goods were only shown to testees without telling them the original price and then let them predict the approximate discount. Finally, testees gave an estimate of the 10 to 12% discount. If the discount rate is large, but not correctly perceived by consumers, the consumers will underestimate the discount rate. Biswas et al. (2013) also showed whether consumers have adopted the law of subtraction (that is, it's easier to initiate the subtraction when the large number is on the left and the decimal number is on the right) will affect the consumer's assessment of the sales price. Based on this, this study considers that when the price strategy of the retailer's larger discount is not correctly perceived by the consumer (underestimated), the retailers with frequency discounting or everyday low pricing combined with occasional depth discounting are no more likely to be selected by consumers than those with frequency discounting or everyday low pricing. But they are still better than occasional depth discounting retailers.

III. Discussion

Based on past research, this study found that when prices are uncertain, consumers are more likely to choose retailers with frequency discounting or retailers with everyday low pricing combined with occasional depth discounting. The order of choice is frequency discounting or everyday low pricing with occasional depth discounting retailers better than frequency discounting or everyday low pricing retailers and finally is the retailers with occasional depth discounting. When the price strategy of the retailer's larger discount is not correctly perceived by the consumer (underestimated), the retailers with frequency discounting or everyday low pricing combined with occasional depth discounting are no more likely to be selected by consumers than those with frequency discounting or everyday low pricing. But they are still better than occasional depth discounting retailers. Therefore, retailers of offline channels should adopt the price strategy of frequency discounting to increase the possibility of consumers' choice. In addition, while discounting, retailers should also pay attention to the way of labeling, in order to facilitate consumers to correctly identify price discounts.

IV. CONCLUSION

Although this study makes inferences about consumers' choice decision of offline retailers' price strategy under the circumstance of uncertain price based on previous literatures and the paper also gives practical suggestions to offline retailers based on the inferences, the conclusion is only based on literature research and has not been empirically studied. In the follow-up study, an empirical test will be conducted on the conclusions proposed in this study to improve the reliability of the research results.

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