Consumer Preferences Among Low-Price Guarantee Offers

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Abstract - The competitive realities of the marketplace force retailers to consider implementing low-price guarantees. Given that retailers will use low-price guarantees, which of the multitude of guarantees should be used? This paper examines the nature of low-price guarantees from the perspective of how consumers make trade-offs in different low-price guarantee designs. Using conjoint analysis, buyers indicate their preference for different low-price guarantee designs. Not all consumers respond to low-price guarantees the same. There are several segments of consumers with regard to low-price guarantees. The study was done with young adults (MBA students) who may be more sophisticated than the population as a whole. Retailers choosing a low-price guarantee ought to understand the preferences among their customers in order to choose an optimal strategy.

Keywords - retail strategy, low-price guarantee, conjoint analysis, consumer trade-offs, buyer behavior

Relevance to Marketing Educators, Researchers, and/or Practitioners - Retailers need to develop a logically consistent and cost-effective low-price guarantee strategy. Merely matching competitive prices does not offer much to consumers as consumers will often understand the transaction and hassle costs involved in invoking such guarantees. As is not surprising, there appear to be different segments of consumers responding to low-price guarantees, an area

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that may be addressed more fully by further research.

Introduction

As competitive intensity continues and increases, retailers seek methods to maintain both sales and consumer loyalty. One element contributing to both sales and consumer loyalty is retailers’ price strategy. Regarding consumer price sensitivity, many retailers have moved to various forms of price guarantee schemes to both attract new customers as well as to maintain existing ones. Academics refer to these guarantees as “price-matching guarantee” (Sivakumar and Weigand, 1996, p.4), “price-matching refund policy” (Jain and Srivastava, 2000, p.351) and “low-price guarantee” (Biswa, Pullig, Yagci, and Dean, 2002, p.107). They are frequently employed by retailers who sell “appliances and hardware, books, tires, office products, groceries, and electronics” (Srivastava and Lurie, 2001, p.296).

There is some controversy as to whether or not price guarantees result in lower prices. Regardless of whether or not actual prices are lower, retailers would want to choose the price guarantee method that is simultaneously most appealing to consumers and has the least potential cost to them. This paper examines how consumers evaluate different price guarantee schemes and, based on this analysis, recommends approaches for retailers. While each retailer faces a unique set of competitive and environmental pressures, the approach presented here is, we believe, generally applicable. Thus, from a retailer’s perspective, what is the best, lowest-cost option when offering a low-price guarantee in response to an existing low-price guarantee of a competitor? Additionally, how much do consumers discount a low-price guarantee given different hassle costs? Ultimately, the purpose of this study is to determine if and how consumers value different mixes of low-price guarantee offerings. We do note that low prices are not the only factor consumers take into consideration when shopping (see, for example, Moore and Carpenter, 2008, p.336), but it is certainly a major one.

Literature Review

Low-Price Guarantees as an Anti-Competitive Practice

Some economists argue that low-price guarantees are anti-competitive and do not result in lower prices. Early presentations of this argument can be found in Zhang (1995) and Edlin (1997). The argument is that if competitive firms have low-price guarantees there is no incentive to cut prices as a means of increasing market share—if hhgregg and Best Buy both have low-price guarantees, it would do neither any good to lower their prices, as lower prices by hhgregg would trigger lower price matches by Best Buy, with the result that neither store would
attract new customers or necessarily retain existing customers (at least on the basis of price). The logic of this in a simplified case is strong. Indeed in a duopoly, with all else being equal, if either retailer were to lower their prices the other retailer would, due to the low-price guarantee, also lowers his price, with the result that neither store would be better off (i.e., same market share, but lower prices and profits for all). “Hence, maintaining the collusive price is optimal for each firm, and the market price may rise well above the marginal cost in equilibrium and may even reach the monopoly price. Thus, PMGs might sustain monopoly prices in the market without any formal agreements among firms” (Dugar and Sorensen, 2006, p. 360). Hviid and Shaffer (1999) argue that small positive hassle costs (e.g., price search, form completion, and transportation cost) to redeem a price guarantee renders price guarantees collusion ability moot, and Dugar and Sorensen (2006, p.375) confirmed it: “the market with all positive hassle costs buyers generates the most competitive outcome.” Hassle costs restore competitive outcomes.

In an experiment, adopting price guarantees increased prices and profits as subjects colluded (Fatas and Manez, 2007). Arbatskaya, Hviid, and Shaffer, (2006) find that price matching leads to higher advertised prices in the tire retail market, whereas Chen and Liu (2007) find that price guarantees are more consistent with higher prices in the electronic goods markets. Mago and Pate (2009) found prices increased significantly with price guarantees when costs were asymmetric.

However, in a real environment, there are a multitude of factors that enter into a consumer's choice of store, with low-price guarantees being only one factor. In reality, it is unlikely that there are only two identical, competitive stores. Although stores tend to specialize in terms of assortment, for any given product there is a fairly large number of stores that will carry the product. It should also be noted that small differences in location, consumer experience, total store assortment and so on means that the condition of ceteris paribus is unlikely to occur. Since retailers have to make decisions in real time, and since they do not know all the factors that may enter into a consumer’s decision set, store owners must act as if low-price guarantees make a difference in consumer choice. It is the belief that low-price guarantees make a difference that drives store owner behavior. Consequently, retailers have a real incentive to use low-price guarantees.

**Low-Price Guarantee Theoretical Underpinning**

Signaling theory is the theoretical underpinning of price guarantees (Spence, 1974, p.297). It is a diagnostic tool for distinguishing between low- and high-priced retailers when information is asymmetrical. These signals affect
consumer value perceptions and search and shopping intentions (Biswas, et al., 2002; Biswas, Dutta, and Pullig, 2006; Kukar-Kinney and Walters, 2003; Srivastava and Lurie, 2001). In the present case, the assumption is that consumers believe sellers would not offer low-price guarantees unless they were legitimate. High-price sellers would lose profits because of refunds and reputation loss. This signal eliminates the need to comparison shop, since it suggests that sellers offer lower-priced goods (Srivastava and Lurie, 2001, p.306). Information is asymmetrical because retailers have information that consumers do not know about product quality and relative price in comparison to competitors; thus, it is difficult for consumers to know who has the lowest price.

In cases where stores are trying to position themselves as low-price competitors in a market, the use of low-price guarantees is intended as a signal of additional confirmation to consumers that indeed the stores have low prices. Failure of stores to act in good faith concerning low prices will send disconfirmatory signals to consumers about the low-price nature of the store. Hence, stores that position themselves as low-price competitors will, in fact, offer low-prices and will use low-price guarantees (and the low-prices generated by such guarantees) to reinforce their position in the market (Jain and Srinivastava, 2000, p.362; Lurie and Srinivastava, 2005, p.149; Srinivastava and Lurie, 2004).

There are different consumer reactions to price-matching and price-beating guarantees (Desmet and Le Nagard, 2005). Price-matching guarantees inform consumers while price-beating (penalties to stores) guarantees enhance store credibility. In general, while price-matching guarantees are somewhat more believable, they generate significantly less favorable store reactions by consumers than price-beating guarantees. This makes intuitive sense, since in order to take advantage of a price-matching guarantee, consumers would typically incur transactions costs (time, travel, etc.) to take advantage of the price-matching guarantee, while a price-beating guarantee “compensates” the customer for the effort required to exercise the guarantee.

There are factors that limit the ability and inclination of consumers to exercise low-price guarantees. The two primary factors are price dispersion and how the price guarantee is classified by consumers. Price dispersion refers to the phenomena where sellers of identical goods can sell these goods to different consumers at different prices due to factors such as search costs, store reputation, and other trade frictions. Consumers may be aware of the fact that they have imperfect price information. In the cases where consumers are aware that price information is incomplete, price matching and price-beating guarantees can moderate some of the consumer anxiety and for consumers, “can help restore a low price signal’s effectiveness” (Biswas, et al., 2006, p.255).
Price guarantees can be classified by consumers in a number of ways, based on their orientation: as a protective tool, as information, and, based on internal consumer goals, as either helping consumers achieve positive goals or avoid negative consequences. Price guarantees can help consumers by being a protective tool against paying too much. This is obvious. Price guarantees, viewed as information, help reduce post-purchase regret. In that absence of a price guarantee, there may be post-purchase price regret in that by choosing a seller with too high prices, consumers may believe that there has been a violation of trust (Dutta, Biswas, and Grewal, 2007, p. 86). With price-matching and price-beating guarantees, a retailer is effectively adding a disclaimer that the store may not offer the lowest prices. This implicit disclaimer can diminish the negative consequences for information-focused consumers when they find that indeed, the store may not have the lowest prices (Dutta, et al., 2007, p. 80).

Finally, the method by which low-price guarantees are presented to consumers can influence different classes of consumer based on consumer goals. Regulatory focus theory (Higgins, 1997) identifies two distinct self-regulatory systems: promotion- and prevention-focused. Promotion-oriented consumers focus on the “ideal” self as reflected in their hopes and aspirations. In contrast, prevention-oriented consumers focus on the “ought” self as reflected in their duties and obligations. A promotion focus favors pursuing positive outcomes and avoiding errors of omission (e.g., “take advantage of this deal”) a prevention focus favors avoiding negative outcomes and errors of commission (e.g., “don’t get ripped off”). The information about low-price guarantees apparently can have an impact on the goal achievement of consumers. Retailers who have promotion-oriented customer bases can frame low-price guarantees so that their customers will perceive the offers as being promotion oriented (Hardesty, Bearden, Haws, and Kidwell, 2012, p.1100).

There is some evidence that consumers do not take much advantage of low-price guarantees. Moorthy and Winter (2006) found that there is little in the way of systematic internal tracking of low-price guarantee redemption rates—only four firms out of 46 studied did any accurate tracking of redemption rates. The other 42 essentially guessed. Overall, those doing systematic tracking claimed redemption rates of .001 percent, 1 percent, 2 percent, and 10 percent. For all 46 firms, the rate based on internal tracking and “best guesses” was 5.8 percent. Part of the reason for consumer failure to use low-price guarantees may be related to the costs of exercising the option.

Regardless of the theoretical positions advanced by some scholars, most marketing practitioners and scholars would argue that low-price guarantees result in changes in prices and in consumer demand patterns. We believe that,
at a minimum, strategically, it makes sense for retailers to have low-price guarantees because of these consumer beliefs.

H1: Price guarantees, regardless of type, will provide greater utility than no guarantee.

**Type of Guarantees**

In 2011, eight of the 10 largest retailers in the United States had low-price guarantees as part of their store policies along with dozens of other largest retailers. Price guarantees are easily copied and implemented. There are two broad categories of low-price guarantees: price-matching and price-beating guarantees. Consider the following example. Wal-Mart offers a Samsung HDTV for $379, and Best Buy has the same item for $389. Further assume that there are no relevant hassle costs (discussed below).

In a price-matching guarantee, a retailer promises to match any lower price by a competitor with a refund of 100 percent of the price difference. For example, in the Wal-Mart example above, Best Buy would match Wal-Mart’s price of $379. Under price-beating guarantees, a firm promises to beat any lower price by a competitor. There are three common variations of price beating guarantees (Arbatskaya, et al., 2004):

1. Variation one: a guarantee to beat a competitor’s lower price by some percentage of the price difference. If, in the above example, Best Buy said they would beat the competitor’s price by 10 percent of the difference, the customer would receive $11 ($10 + 10% of $10 or $11 in all, or, pay a price of $368);

2. Variation two: a guarantee to beat competitor prices by some percentage (or beat any lower price by some percentage). If, in the example, Best Buy said that they would beat the competitor’s price by 3 percent, Best Buy would charge the customer 97 percent of the Wal-Mart price ($379 x .97 or $367.63); and

3. Variation three: a guarantee to beat competitor prices by some dollar amount (or beat any lower price by some dollar amount). If, in the example, Best Buy said that they beat the competitor’s price by $20, Best Buy would charge the customer $359 ($379-$20).

In the United States in the late 1990’s, the most common type of low-price guarantee was the price-matching guarantee, which occurs in nearly two-thirds of the low-price guarantees and was used by almost three-fourths of the firms. The most common type of price-beating guarantee was price beating variation
one, which occurs in nearly one-third of the low-price guarantees and was used by almost one-fifth of the firms. These two types of low-price guarantees were used by 92 percent of all firms, and together accounted for 95 percent of all low-price guarantees (Arbatskaya, et al., 2004, p.316). The above discussion details a clear delineation among the three predominant discounts: matching the competitor’s price plus an additional 10 percent or $50 provides the two highest returns for consumers. Refunding the difference plus 10 percent is a distant third.

H2: Among the three types of guarantees the following ranking will occur based on utility: beating the competitor’s lowest price by 10 percent will provide the highest utility followed by beating the competitor’s lowest price by $50 matching the competitor’s price plus 10 percent of the difference, with matching competitor’s prices having the lowest utility.

Restrictions on Guarantees

Price-beating and price-matching guarantees tend to have a number of restrictions in place (hassle costs) which can act to increase the transaction costs involved in consumer attempts to claim the price beating/matching refund (Arbatskaya, et al., 2004; Hviid and Shaffer, 1999). The restrictions can include requirements to produce documentary evidence of competitors’ prices (such as an advertisement), may involve time limits (e.g., within seven days of purchase), may require specific approval from someone within the store (such as the manager), and so on.

Most, if not all, retailers have restrictions on the availability of low-price guarantees. This makes sense since retailers want to protect themselves from abuse and also to make decision-making easier for managers and those who have to deal with customers who invoke low-price guarantee claims.

There are a large number of restrictions that retailers place on the customers’ ability to invoke the low-price guarantee. Again, this may be partly due to the legalistic nature of doing business in the United States. Without exception, there are significantly fewer cases of restrictions on price-matching guarantees than on price-beating guarantees (Arbatskaya, et al., 2004). The typical restrictions include:

1. The consumer may need to supply proof of a competitor’s lower price;
2. The customer may need to seek out particular employees in the store when requesting refunds;
3. There may be restrictions on which goods are covered by a firm’s guarantee;
4. There may be restrictions on which competitors are covered by the firm’s guarantee;
5. There may be restrictions on the geographical area to which a firm’s guarantee applies;
6. The products may have to be identical;
7. The product may have to be in the competitor’s stock;
8. There may be exceptions for items such as floor samples or other special offers;
9. The retailer is not responsible for printing errors; and
10. Some retailers limit the time during which consumers can claim a low-price guarantee.

For each of the above, there can be a wide variety of additional limits. As one can imagine, there are innumerable ways in which these 10 items can vary individually and jointly to produce a fairly complex web of similar, yet distinct low-price guarantees.

Of course, there are risks in imposing these “hassle” costs. Low-price guarantee default (i.e., failure to pay-off by retailers) causes negative consumer attitudes to form regarding the defaulting retailer (Dutta, 2004, p.107), and so what may be saved in terms of paying off on the low-price guarantee may be lost in terms of negative store attitudes and lost future patronage.

Now, since low-price guarantees can often impose a real cost to the retailer, retailers need to make a careful tradeoff between giving consumers a low-price guarantee sufficient enough to attract them to the store, yet not so large that they are excessively costly. Different low-price guarantees cost retailers different amounts of money, depending on how the guarantee is developed.

H3: Minimizing hassle costs by not requiring written proof will provide positive utility.

H4: Expanding competitors to include Internet competitors will provide positive utility.

H5: The type of guarantee will be the most important attribute.

Method

A study employing conjoint analysis was deemed to be most appropriate for measuring these consumer tradeoffs (Danaher, 1997; Louviere, 1988). There is a very large number of potential attributes that can be chosen to model the consumer trade-off process. The key attribute is the nature of guarantee offered
(e.g., none, match price, beat competitors’ price offers by some percentage, refund the price difference, or, beat lowest price by some dollar amount). In addition, based on our reading of the literature and in consultation with our corporate partner, we chose to include two variables of immediate interest: Internet competitors included/excluded and proof of competitors’ lower price required/not required. The attribute levels are detailed in Table One. The introduction section of the data collection instrument instructed respondents that the purchase was for a flat screen television with a retail price of $600. Respondents were to assume that the retailer had their desired brand in stock and that any other factors that would influence the purchase were the same for all retailers.

We note that the price-matching guarantees reflect those that consumers are likely to see in ads or encounter in stores. Now, depending on what the competition is charging and the resulting price difference is, it could happen that any of the price-beating policies can produce the lowest price for consumers. However, stores are generally limited to a single price-guarantee policy. Therefore, our selection of the different price guarantees reflects the reality that consumers are likely to face.

**Table 1: Low-price Guarantee Attributes***

<table>
<thead>
<tr>
<th>Attribute</th>
<th>Level</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Guarantee</td>
<td>None</td>
</tr>
<tr>
<td></td>
<td>Match competitor’s price</td>
</tr>
<tr>
<td></td>
<td>Beat competitor’s lowest price by 10%</td>
</tr>
<tr>
<td></td>
<td>Refund the price difference plus 10%</td>
</tr>
<tr>
<td></td>
<td>Beat any competitor’s price by $50.00</td>
</tr>
<tr>
<td>Competitors Covered by the Guarantee:</td>
<td>Local only (no Internet)</td>
</tr>
<tr>
<td></td>
<td>Any, including Internet retailers</td>
</tr>
<tr>
<td>Proof Required to get Guarantee:</td>
<td>No written proof required</td>
</tr>
<tr>
<td></td>
<td>Recent advertisement</td>
</tr>
</tbody>
</table>

* The attributes and their levels were derived from the academic literature and advice from our corporate advisor.

An orthogonal array was used to generate 16 profiles based on the three attributes and their respective levels. Each profile consists of a description of the retailer in terms of the three attributes. In addition, two additional holdout profiles were added to evaluate the predictive ability of the estimated conjoint model. Two examples of the profiles are contained in Table Two. The questionnaire was administered to 180 MBA students. The task for each subject was to indicate for each of the profiles the likelihood that they would buy this television.
Table 2: Examples of Price Guarantee Descriptions

1. How likely would you be to buy this Flat Screen TV from the following retailer, assuming everything else was equal? (Please circle the number)

   Price Guarantee: Beat competitor’s lowest price by 10%
   Which Competitors: Local only (no Internet retailers)
   Price Proof required by retailer: Recent advertisement

<table>
<thead>
<tr>
<th>Definitely Would Not Buy</th>
<th>Definitely Would Buy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  2  3  4  5  6  7  8  9  10</td>
<td></td>
</tr>
</tbody>
</table>

2. How likely would you be to buy this Flat Screen TV from the following retailer, assuming everything else was equal? (Please circle the number)

   Price Guarantee: Match competitor’s price
   Which Competitors: Local only (no Internet retailers)
   Price Proof required by retailer: Recent advertisement

<table>
<thead>
<tr>
<th>Definitely Would Not Buy</th>
<th>Definitely Would Buy</th>
</tr>
</thead>
<tbody>
<tr>
<td>1  2  3  4  5  6  7  8  9  10</td>
<td></td>
</tr>
</tbody>
</table>

Analysis and Results

Respondents are from a professional part-time MBA program, where all students work predominately as middle-level managers during the week. The average age is 29 and most have families. Given their family lifecycle position, most have made multiple large purchases throughout their lives including homes, home furnishings (e.g., expensive televisions) and cars. They are experienced shoppers who understand the retail environment.

The completed questionnaires were analyzed using OLS regression analysis in SPSS Conjoint. The results (Table Three) indicate a very good fit of the model as the $R^2$ and $R$-values are large and significant. In terms of the three attributes “Price Guarantee” was by far the most important. “Types of Competitors” was second, and “Proof Required by Retailer” was third. Hypothesis five is supported.
<table>
<thead>
<tr>
<th>Attribute</th>
<th>Level</th>
<th>Utility Values</th>
</tr>
</thead>
<tbody>
<tr>
<td>Price Guarantee (75.17%)*</td>
<td>None</td>
<td>-2.774</td>
</tr>
<tr>
<td></td>
<td>Match competitor’s price</td>
<td>-0.526</td>
</tr>
<tr>
<td></td>
<td>Beat competitor’s lowest price by 10%</td>
<td>1.346</td>
</tr>
<tr>
<td></td>
<td>Refund the price difference plus 10%</td>
<td>1.138</td>
</tr>
<tr>
<td></td>
<td>Beat any competitor’s price by $50.00</td>
<td>0.817</td>
</tr>
<tr>
<td>Competitors Covered by the Guarantee</td>
<td>Local only (no Internet)</td>
<td>-0.425</td>
</tr>
<tr>
<td>(13.97%)</td>
<td>Any, including Internet retailers</td>
<td>0.425</td>
</tr>
<tr>
<td>Proof Required to Get Guarantee</td>
<td>Recent advertisement</td>
<td>-0.089</td>
</tr>
<tr>
<td>(10.85%)</td>
<td>No written proof Required</td>
<td>0.089</td>
</tr>
</tbody>
</table>

Constant 5.931
Pearson’s R = .990  Significance = .000
Kendall’s Tau = .967  Significance = .000
Kendall’s tau = 1.000 for 2 holdouts  Significance = .000

* The percentages in parentheses indicate the relative importance of each attribute in explaining consumers’ quality perceptions. Therefore, which competitors are covered by the guarantee is somewhat more important than is the kind of proof required to get the guarantee in explaining the dependent variable.

An examination of the utility associated with the five different types of price guarantees indicates that “Beating the Competitors Lowest Price by 10 Percent” has the highest utility value (1.346), while “Refunding the Price Difference Plus 10%” was second (1.138). “Beat Any Competitors Price by $50.00” had the third highest utility value (.817). “Matching a Competitors Price” was fourth (.526), while “No Price Guarantee” was last (-2.774). Hypothesis one is supported; however, hypothesis two is only partially supported. The cheapest alternative from the retailer’s perspective is evaluated as the second highest.

Clearly the two guarantees with the lowest utilities make sense—they offer little (price matching) or nothing (no guarantee). In the case of the guarantees that have positive utilities, it is a bit less clear as to the logic of the rankings. Given that consumers do not know the magnitude of the competitor’s price...
difference, their rankings must be based on their general perception of the magnitude of the price benefit. In a sense, this reflects what happens in the real world, since retailers are likely to have a storewide policy on price guarantees—not different policies based on what the competitors are charging or different policies for different price ranges of products. At a minimum, the guarantees with positive utilities do indeed provide positive benefits to the purchaser. The other two offer little (price match) or nothing (no guarantee). Regardless, this implicitly reinforces the signaling theory argument for price guarantees.

Not surprisingly, a price guarantee applying to Internet retailers as well as other retailers has a higher utility value (.425) than price guarantees that exclude Internet retailers (-.425). Guarantees that did not require any written proof had a higher utility value (.089) than did price guarantees that required an original printed ad (-.089). Requiring documentation (hassle costs) creates disutility. Hypotheses three and four are supported.

Managerial Implications

The results offer clear direction for retailers: offer a price guarantee and merely matching competitor’s pricing does not enhance consumer utility. To “beat” the competition on price, retailers should offer additional incentives. Once one retailer introduces such guarantees, all other retailers have little choice but to follow suit. Matching prices does not do much for consumers either. Which incentives to choose offers retailers cost savings: refunding the price difference plus 10 percent is slightly below in utility from the most preferred alternative from consumer’s perspective, which is to match competitor’s price plus 10 percent. Comparing the two for a product that a competitor sells for $50 less would save the retailers $50. A guarantee of beating competitor’s price plus $50 is almost as expensive as beating the competitor’s price plus 10 percent but offers only half the utility.

Larger guarantees, in general, positively affect consumer purchase intentions, which is consistent with prior research (Dutta and Biswas, 2005, p.290; Kukar-Kinney and Walters, 2003, p.336). Retailers also would need to take into consideration the anticipated magnitude of competitors’ price offers in determining what the best low-price policy is. For example, a policy that refunds $20 in the case of identified price differences would be costly if the dollar value of items sold is small (e.g., DVDs), while it would not be costly if the dollar value of items is large (e.g., cars). Firms that sell items with a wide range of prices are unlikely (and unwise) to offer a fixed-dollar low-price guarantee. Price guarantees must be integral to larger goals of brand loyalty and profitability. If the guarantee does not enhance brand loyalty and develop new customers who become brand loyal, its usefulness is diminished.
We note that apparently relatively few customers use the low-price guarantee. This does not mean, however, that retailers should not develop a logically consistent and price effective low-price guarantee strategy. The perception by consumers of fairness in the price offered is an important part of store signage (Maxwell, 2008, p.127). The low-price guarantee offering should be consistent with the image the store is trying to project. Even if a customer never uses the guarantee, its very existence creates or distracts from the value of the store and its offerings.

Given that getting the benefit of a low-price guarantee is likely to involve transaction costs of time and travel (not to mention possible aggravation) on the part of consumers, only matching prices means that consumers are net losers in order to acquire the benefit. Allowing customers to check Internet retailers provided a positive utility and is advantageous for retailers to allow, but much less important than the type of guarantee.

Since documentation to prove a price discrepancy (between store where purchased and a competitor) provides negative utility, extrapolating from that, unacceptable documentation resulting in a failure to pay-off the guarantee would generate negative consumer attitudes (Dutta, 2004, p.107). Here recommendations are nebulous. Minimizing hassle costs by not requiring a recent ad offers little utility for the consumer, and retailers may decide to require it to minimize fraud and payout claims.

While it may be a theoretical possibility that in a duopoly low-price guarantees can lead to higher prices, given the reality of thousands of competitors and the wide assortments found in stores, it seems unlikely that low-price guarantees in practice lead to higher prices. As a consequence, choosing the most cost effective (highest return, lowest cost) low-price guarantee strategy is an important task of managers.

**Future Research**

Finally, we suggest that a possible research area that ought to be considered has to do with which customers use low-price guarantees. While firms try to please all customers, as we know, not every customer is worth having. It may be that customers who use low-price guarantees are not profitable to retailers in the first place. For example, they may purchase only on price, switching stores often. If this is so, making the redemption process more complex (i.e., increasing hassle costs) may not cost the company much. Analysis of lifetime customer purchasing behavior vis-à-vis exercise of low-price guarantees may allow firms to estimate the direct costs of eliminating or reducing low-price guarantees. Additionally, we could measure a customer’s switching behavior or brand
loyalty, in general, to determine whether there are price guarantees that attract loyal customers while being unenticing to switchers (such as refunds in merchandise or store credit only). This coupled with demographic variables could provide actionable segments for retailers. We could include how consumers perceive price guarantees: protective tool or information, since this has a moderating effect on attitudes.

The percentage penalty in a price-matching guarantee could be manipulated to examine if utilities are similar across different percentages. For example, would beating a competitor’s lowest price by 8 percent provide similar levels of utility at 10 percent? Does 15 percent provide a significantly higher utility than 10 percent? We could manipulate moderating factors from the literature and compare between groups for example on high and low price dispersion within a market.

Many companies are offering automatic price guarantees. For example, Orbitz (travel website) will monitor prices from the time of purchase to travel and if the price drops refund the difference. These price guarantees appear to work for a modest refund (one-time difference), but backfires when extreme (10 times difference) by triggering negative reactions (Borges and Babin, 2012, p.780). This study could be expanded internationally and to different promotion vehicles (Prendergast, Liu, and Poon, 2009). Finally, different time durations for when the price guarantee is in effect could be tested (d’Astous and Guevremont, 2008).

Limitations

The survey was done at one school using one product category and price point. The study was only cross-sectional, and we did not test whether the results would hold longitudinally. Although the price was taken from local retail prices, we did not pretest it as being typical as perceived by respondents for the local market. A moderating factor may be consumers’ level of competitiveness. More competitive consumers may view the price guarantee as a challenge. Our study does not address how the retailer could frame the price guarantee (e.g., promotion frame: “Get the Best Deal in Town” or prevention frame: “Don’t Get Ripped Off”) (Hardesty, 2012).

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Author Information

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