



The Effect of Price Discount Disconfirmation on Customers' Perceptions

Jung Eun Lee, Virginia Tech, USA
Leslie Stoel, The Ohio State University, USA

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1. Introduction and Theoretical Background

Research on price promotions suggests that higher discounts often result in more favorable evaluation. However, price signals more information than just monetary cost, and dramatic price changes impact consumers' negative perceptions of the product. Customers perceive discounter prices as high or low relative to their own internal standard. When customers perceive that a price is higher than their internal standards, a decision to purchase can be perceived as a loss, thus decreasing purchase intentions. Similarly, a larger discount than expected would be perceived as a gain. But when customers get a discount that is much higher than they expect, it raises questions about the price and product quality. Thus, both the actual price discount (APD) and the customers' expected price discount (EPD) would have an influence on their perceptions.

The assimilation-contrast theory has been widely applied to explain acceptable price ranges. According to the theory, individuals compare new stimuli to their expectations, which in turn causes the occurrence of either the assimilation or the contrast effect (Hovland et al., 1957). Assimilation occurs when the stimuli is within the latitude of acceptance or slightly beyond or below the latitude of acceptance. But, when the stimuli are farther away from the latitude of acceptance, the contrast effect occurs. Based on the theory, customers respond favorably to an APD within a neighborhood of their EPD (assimilation), whereas they would make negative judgments for APDs that are outside of their EPD neighborhood (contrast). Thus, price discounts may not significantly decrease customers' positive perceptions for reasonable discounts amounts, but price discounts may dramatically decrease positive perceptions when discount amounts are very high relative to their expectations.

This study also integrated the Price-Quality-Value (P-Q-V) model. The P-Q-V model explains that price is a stimulus that influences perceived quality and perceived sacrifice and the trade-off between perceived quality and perceived sacrifice impacts perceived value (Monroe & Krishnan, 1985). This study introduced "price discount disconfirmation" (PDD), APD minus the EPD, to the model, where a positive PDD indicates more savings than expected and vice versa. Based on the P-Q-V model and assimilation-contrast theory, this study proposed that PDD would have an influence on consumer perceptions of price discounts offered online.

H₁: Customer perceptions of quality decrease as the PDD increases, and decrease dramatically at extremely high PDD (exponential relationship).

H₂: PDD has a negative influence on perceived savings (linear relationship).

H₃: Perceived quality mediates the relationship between PDD and perceived value.

H₄: Perceived savings mediate the relationship between PDD and perceived value.

2. Method

An online experiment was used and the two manipulated factors were the APD (10, 30, 50, 70 and 90%) and the product (laptops and jeans). First, EPD was measured after providing an assigned product with retail price. Next, using a scenario, they were instructed to imagine they are considering the purchase of the assigned product, and to assume that the brand was one of their favorite brands and that the retailer was unknown. Then, participants were presented with a realistic online store webpage for the product with price discount. We measured perceived quality, savings and value. A total of 517 responses were used for the analysis.

3. Results and Discussion

To test H₁ and H₃, Hayes and Preacher's (2010) MEDCURVE was used. The result showed that PDD had a significant exponential influence on perceived quality ($B = -.920, p = .001$) with a significant R^2 of $.049$ ($p < .001$). The second model showed that that perceived quality had a significant influence on perceived value linearly ($B = .942, p < .001$) with a significant R^2 of $.570$ ($p < .001$). Finally, the result of indirect effect of PDD on perceived value through perceived quality showed that the instantaneous indirect effect (θ) was negative and decreased as PDD increased through perceived quality. This indicates that respondents who are relatively low in PDD slightly decreased perceived value through perceived quality as PDD increases. However, PDD among respondents who are high in PDD had large decreases in perceived value through perceived quality. Therefore, H₁ and H₃ were supported. This supports the assimilation-contrast theory that customers' negative perceptions of the product quality were dramatically increased for price discounts that were extremely high relative to customers' expectations.

To test H₂ and H₄, a hierarchical regression model was used. In support of H₂, the linear relationship between PDD and perceived savings was statistically significant ($\beta = .398, p < .001$). The PDD has a significant influence on perceived value ($\beta = .289, p = .004$). After adding perceived savings to the model, the relationship between PDD and perceived value became insignificant ($\beta = .014, p = .881$). Thus, H₂ and H₄ were supported. This indicates that customers perceive larger monetary savings as price discounts increase given their expectations. Although this study considered PDD rather than absolute price as a predictor, the result was similar to the original P-Q-V model (Monroe & Krishnan, 1985).

4. Implications

This study demonstrates that price discount can lower customers' favorable perceptions of product quality, and those favorable perceptions are decreased dramatically by extremely high price discounts. In particular, unknown retailers should be more careful when deciding the size of price discounts; they need to be high enough to attract customers but not too high so as to increase customers' skepticism. If the unfamiliar retailer uses a low price as their marketing strategy, they should also use other strategies to reduce customers' uncertainty about the product quality and the retailers' trustworthiness, such as encouraging existing customers to write positive reviews and providing free returns or an exchange policy.

References available on request.