

LIST PRICE VERSUS DEAL PRICE BASED INTERNAL REFERENCE POINTS IN DEAL EVALUATION: THE INFLUENCES OF CONTEXTUAL PRICES, PRICE- PROMOTIONS, AND THEIR DISPERSIONS

THESIS SUBMITTED IN PARTIAL FULFILLMENT OF THE REQUIREMENTS FOR
THE FELLOW PROGRAMME IN MANAGEMENT

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Abstract

A reference price (RP) is a price belief or standard against which a product's price is evaluated. Marketing scholars accept the influence of RP on consumer decision making as empirical generalization. Although, numerous conceptualizations of RP exist in the literature (e.g., normal price, last paid price, lowest price in the market, expected price, acceptable price range, highest price in the market); internal reference price (IRP) and contextual reference price (CRP) are the two most discussed and broadest conceptualizations of RP. Together, IRP and CRP can cover most other conceptualizations of RP. IRP is a brand-specific, psychological, and internal price standard or belief, which is based on the memory of previous prices of a brand. On the other hand, CRPs are based on the prices of available alternative options in the current purchase environment.

The literature suggests that many authors modeled IRP based on deal price (i.e., list price – discount), ignoring the fact that list price and price-promotion are two different aspects. Price-promotion is a communication of monetary gain, which cannot be regarded as equivalent to a simple price-cut. Moreover, list price and price-promotion, both are amounts. Therefore, the research proposes two distinct sets of reference points, for list price and for price-promotion. In addition, it hypothesizes the interactive influence of the two internal reference points based utility evaluations on deal evaluation. The research suggests gap in the understanding of contextual reference price and contextual price utility and proposes a new mechanism to address the issues. Based on that, the research hypothesized moderating

influence of contextual price utility on internal reference price based focal product's price evaluations. Price dispersion, operationalized in terms of the latitude of a set of contextual price-points, is an integral aspect of contextual prices. The research proposes the influence of price dispersion on contextual price evaluation. Since the research proposes a separate set of promotional reference points and consequently conceptualizes promotional dispersion; above proposed are investigated for price-promotion as well.

Based on a series of experiments, the research finds support for all key proposed hypotheses. The research finds a significant influence of monetary form of promotional reference point. In addition, the research shows interactive and mutual influences among different pertinent variables, which were hidden due to deal price based approach. Moreover, in all situations of comparison between deal price based model and proposed approach based model; proposed approach provided better quality models. Experiments support the proposed mechanism of contextual price/promotion utility and show their moderating influence over internal reference price/promotion based evaluations as well. The study finds interesting insights about price/promotion dispersion as well.

The study can have significant impact on reference price modeling. It has proposed and empirically demonstrated the influences of novel conceptualizations such as monetary promotional reference points, promotion dispersion, and the new mechanism of contextual price/promotion utility. This is one of the few studies, which instead of investigating the cause of price dispersion, investigates price dispersion's influence on consumer evaluations. Based on the findings of this research, practitioners can manage product-price in a superior way by including in their models, information such as current as well as previous contextual prices, promotions, and dispersions.