Consumers perceive risk when 'price' means more than money

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UC's John Dinsmore is presenting research on how pricing can affect consumer perceptions of risk. Credit: Dottie Stover, University of Cincinnati

When companies combine different pricing structures – such as asking for effort or information in combination with or instead of money – consumers perceive a greater risk in the decision to buy.

That's according to University of Cincinnati research to be presented at the Aug. 15-17 Behavioral Pricing Conference in Detroit, Mich., by doctoral marketing student John Dinsmore. His paper is titled "Mental Accounting, General Evaluability Theory and the Framing Losses Posed by Partitioned Monetary and Nonmonetary Prices."

According to Dinsmore, shoppers routinely arrive at buying decisions by categorizing and evaluating prices, a process known as mental accounting that helps consumers judge a level of loss or sacrifice posed by pricing strategies.

"Companies have lots of options when pricing products. They can charge money, or they can require something else such as watching an advertisement," explained Dinsmore of UC's Carl H. Lindner College of Business.

And in the eyes of the consumer, greater sacrifice means more risk, he added.

This risk can be tied to cash outlay and an additional consumer sacrifice to obtain a good or service, such as time spent evaluating product information, partaking in services or registering personal information to be granted user access.

Dinsmore's research, for which he won an honorable mention from the Fordham University Pricing Center, New York, as one of three finalists in the 2012 Behavioral Pricing Dissertation Competition, consisted of an online survey of about 300 people in which he presented them with identical product descriptions and randomly used three different pricing structures.

Surveyed "consumers" were asked to consider different expenses (money, time and information privacy) and assess anticipated risk.

"I found that products with multiple monetary prices did not appear any riskier than products with a single price," he said. "Products with different price categories, for example charging money and requiring consumers to view an ad before buying a product, seemed riskier."

In other words, these nonmonetary costs evoke different mental considerations, a field of study known as behavioral pricing research that observes buyer behavior as it relates to characteristics behind perceived value.

What does it mean for businesses? It's all about striking a risk balance, Dinsmore explained.

"As businesses seek new ways to make money off their product or search for new revenue streams, there could be negative unintentional consequences for combining different categories of prices, " he stated.

Dinsmore added that for each type of price a company attaches to a product, a different set of consumer concerns may arise: "The wider array of concerns (e.g. privacy), the riskier that product seems."

Businesses will need to assess whether they can afford if their product is viewed as slightly more risky, he said.

"Companies may be better off charging a higher monetary price than opting for a seemingly cheaper (monetarily) but combined pricing strategy," according to Dinsmore.

Provided by University of Cincinnati

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