

What is the real cost of discounting retail items?

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Discounting retail items reduces the tendency to shop around, which leads to less competitive outcomes and potentially higher prices, according to University of Adelaide School of Economics' Associate Professor Ralph Bayer.

In new research published in the Journal of Economic Psychology, Associate Professor Bayer studied how price framing (the way in which a price is presented) influences consumer shopping behaviour.

In a two-shop consumer search experiment conducted in a computer laboratory, participants were exposed to both net [prices](#) and gross prices with a discount.

It was found that shoppers purchased more often in the first shop, without searching, regardless of where discounts were offered. Even when consumers knew the second shop offered a discount and the first didn't, they were more likely to buy from the first shop.

"There are many aspects that influence consumers to buy a product including marketing and idiosyncratic preferences, but in this study we were able to remove those influences and isolate how price framing influences consumer search behaviour," Associate Professor Bayer says.

"The results of this study imply the knowledge that there are discounts elsewhere (in shop two in this case) does not, as one might expect, lure people into shopping around if the actual prices are unknown.

"This suggests that when a shopper sees a discount in a store they overvalue it, while a discount they are expecting to see in another store is undervalued."

According to Associate Professor Bayer, these research findings also tell a larger story about retail competitiveness and prices.

"It is largely known that any business practice that reduces consumers' willingness to shop around reduces competition and ultimately leads to higher prices. Examples are loyalty programs, reward cards and, as our study now shows, discounts.

"Our study also shows that the decision biases are linked to price uncertainty. For this reason the easiest way to prevent being influenced by price framing is to research prices online before hitting the shops," Associate Professor Bayer says.

More information: The full paper, *Discounts and Consumer Search Behavior: The Role of Framing*, can be access online at:

www.sciencedirect.com/science/.../ii/S0167487013001037

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