

Improving retail by studying shoppers' behavior

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Understanding what triggers shoppers to buy now or to wait plays an increasingly critical role in determining the right price.

Should you buy that new pair of shoes today? Or wait for a sale?

Pay full price now, and you may regret if the shoes are marked down later. Wait for a bargain, and your size could be gone.

It's a common dilemma for shoppers. And it's one that holds increasingly valuable information for retailers in determining effective pricing policies that are beneficial to both retailers and [consumers](#).

"In the past decade, customers have become very strategic," said UT Dallas pricing expert Dr. Özalp Özer, the Ashbel Smith Professor of Operations Management in the Naveen Jindal School of Management and visiting professor at the MIT Sloan School of Management.

"Many consumers will wait until end-of-season sales to make purchases, whereas others will choose to pay a higher price and purchase early to guarantee they get what they want," Özer said. "This presents a challenge to retailers in determining the best pricing practice. Price too high, you will lose a lot of customers or likely induce them to wait too long. Price too low and risk ending the season in loss.

"In the end, consumers also suffer. They face unnecessary stock outs or pay too much."

Understanding what triggers consumers to purchase now or to wait plays an increasingly critical role in determining the right price.

Özer and his colleague Karen Zheng, assistant professor at MIT Sloan, identified two behavioral issues that influenced consumers' decisions: regret about choosing one action over another and the misunderstanding about the likelihood that a product would be available during the markdown period.

Their study, "Markdown or Everyday Low Price? The Role of Behavioral Motives," makes a case for markdowns over everyday low prices for products that carry a high emotional attachment, such as a stylish pair of shoes. Other products, such as undershirts, they found, lack the same attachment that would motivate a customer to purchase

them on the spot to avoid missing out.

The research identifies consumers' key behavioral motives in purchasing a product, depending on the characteristics of a product line. Özer then provides an algorithm to determine the optimal markdown or the everyday low price.

Özer's research also found that shoppers, who lack any information about the supply of a product, often underestimate the likelihood that an item will sell out. Giving them information can boost sales, he said. He pointed to the practice of many online retailers of indicating how many copies of each item (such as a book) are left in stock. Such explicit information urges customers to buy now rather than face the unwanted feeling of regret.

According to his research, ignoring such latent issues could lead the seller to understock too much and unnecessarily forgo up to 14 percent of potential demand, which also means more unsatisfied customers.

"Given that retailers operate with slim profit margins, 14 percent is a very significant number. It could result in 10 percent of profits," Özer said.

Effective pricing management requires an interdisciplinary, cross-functional approach including business analytics, operations, marketing, to behavioral psychology, said Özer, co-editor of [*The Oxford Handbook of Pricing Management*](#).

"Companies are starting to pay a lot more attention to [pricing](#) strategy, realizing that it is one of the most important levers in the decision process," Özer said. "There has been a lot of attention to aspects of the business like operations and supply chains. Pricing is the next frontier."

Provided by University of Texas at Dallas

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