

Media plays role in igniting price wars

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The media's use of words like 'blow' and 'slap in the face' creates a sense of conflict and, therefore, news value.

Before Reserve Bank Governor Graeme Wheeler even announced last week's cut to the Official Cash Rate, there were media reports of fixed mortgage rates heading towards record lows. Massey University's Professor Harald van Heerde, who has spent years studying price wars,

says the impact of media coverage of price cuts can be significant, sometimes even triggering a deeper spiral of cuts.

"Even though consumers and investors can see firms' marketing activity through other channels, [media coverage](#) really amplifies the reach and impact. Consumers often consider news stories to be more important and credible than the company's own communication.

"You could say it fans the fire so consumers start thinking about whether they should consider switching banks, for example."

War-like language = greater news value

Professor van Heerde says the language used to describe competitive companies in the [media](#) is an important factor in creating a sense of conflict and, therefore, news value.

"When you read headlines like 'Air NZ boss: We don't lose to Australia at home', illustrated with an image of two boxers, it really creates a sense of conflict, which makes for a better story. The tone and volume of coverage can start to trigger additional responses from both competitors and consumers."

Professor van Heerde says his research shows a significant "media effect", especially if coverage of the price cuts is positive.

"Using complex modelling we really teased out when companies responded to their competitors' activity and when they were responding to the media. We found both the reaction of firms and investors was well above what you would expect from a typical competitive reaction."

As well as helping to ignite price wars, Professor van Heerde says the media also plays a role in ending them.

"While [consumers](#) will always be interested to know where they may be able to find lower prices, for the media price cutting stops being a news story after a period of time. When that happens, we also start to see [prices](#) slowly inch back up."

Provided by Massey University

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