

Retailers can manipulate consumer regret to beat competitors

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Markdown retailers can survive the entry of an everyday low price retailer into a highly competitive market by manipulating price, product availability, and the regret consumers feel when they pay too much or wait till a product is unavailable to buy it, according to a new study. The results explain why markdown pricing remains ubiquitous in spite of the simplicity and marketing and operational advantages of everyday low pricing.

Retail [pricing](#) comes in two main varieties. In the first, known as markdown pricing, the retailer offers the product at one price early in the season and at a discounted price later. The other option, called everyday low price, is to offer goods at the same price with no or limited markdowns.

Elodie Adida Goodman, an associate professor of operations and [supply chain management](#) at the UC Riverside School of Business, and Özalp Özer, a professor of management science at the University of Texas at Dallas, wondered if [retailers](#) can use either of these strategies as a defense against a competitor entering the market.

Goodman and Özer designed a model that assigned values not only to pricing strategies and retail outcomes, but also to a less-studied factor: consumer regret. If the consumer buys a product at the original price early in the season they might experience "high price regret" when it goes on sale later. But waiting can lead to "availability regret" if the product sells out before it goes on sale.

Everyday low price retailers straddle this dilemma by offering a constant price lower than the markdown retailer's original price, but higher than its sale price.

The modeling showed that by carefully controlling product supply and price, markdown retailers could manipulate both types of consumer regret to drive sales at both the original price and the sale price.

Everyday low price retailers could only manipulate high price regret by controlling their price. But even this didn't always work because shoppers who bought at the everyday low price retailer could still experience high price regret during seasonal sales at markdown retailers, when prices are lower than at everyday low price retailers. Incumbent everyday low price retailers failed in competition with markdown retailers entering the market.

The [results](#) help explain why switching from a markdown pricing mode to everyday low pricing mode can have disastrous results for retailers like JC Penney, whose dismal everyday low price experiment has become a marketing cautionary tale.

The results also help explain why markdown pricing dominates the retail environment for some products.

"For a retailer facing the risk of competitors entering the market, the markdown pricing mode will be more successful than everyday low price. Existing retailers with a markdown pricing mode will be more likely to survive when competitor enters the market than if they use an everyday low price pricing mode. For a new retailer trying to break into a [market](#) employing markdown pricing, everyday low price strategy might be effective," advised Goodman.

The study, "Why Markdown as a Pricing Modality?" appeared in the journal *Management Science*, was co-authored by Goodman under her

maiden name, Adida, and Ozer.

More information: Elodie Adida et al, Why Markdown as a Pricing Modality?, *Management Science* (2018). [DOI: 10.1287/mnsc.2018.3046](https://doi.org/10.1287/mnsc.2018.3046)

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