

Pricing practices cost consumers

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Products that have individual price stickers cost more than products that have prices marked on the shelf. Photo by Susan Bubak.

You may be paying more for that can of soup or loaf of bread, depending on whether they have an individual price sticker or not. A new study from the DeGroote School of Business finds grocery items individually priced with stickers are more costly for consumers than those with price tags on the shelf only.

In a study to be published in the *Journal of Law & Economics*, researchers compared prices in supermarkets that were subject to the Item Pricing Law (IPL), which requires each item to have its own individual price label, with those in stores that were not subject to the law and had only a price tag on the shelf. They found that prices in IPL stores are 20 cents to 25 cents higher per item than in non-IPL stores.

"Individual stickers have costs," explains Sourav Ray, assistant professor of marketing at the DeGroote School of Business and co-author on the study. "It is expensive and time consuming to put labels on each item. And it also makes changing prices more expensive -- meaning that stores are less likely to have sales. In a competitive industry like grocery retailing, any cost increase could translate into a price increase."

Individual price stickers are used so that consumers can tell if pricing errors are made and thereby avoid overcharges. However, overcharges typically occur in only about one per cent of items sold and the average cost of overpricing is less than one cent per item. (Undercharges were about equally likely.) Thus, estimates of the potential benefits of individual labels are less than one cent per item, yet the costs exceed 20 cents per item.

The average price of the items in the research sample was about \$2.50. With a 20 to 25 cent increase, this implies that prices of groceries are almost 10 per cent higher in stores that were subject to the individual pricing requirement. As food represents about 14 per cent of the average family income, individual price stickers can have a big impact on a family's budget.

Most retailers have adopted voluntary measures of protecting consumers. Their policies are often illustrated with signs throughout the stores. However, in Quebec, item pricing laws have been part of the legislation for a number of years.

Concludes Ray, "Our study shows that individual pricing costs people much more than it benefits them. This practice is a bad deal for consumers."

Source: McMaster University

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