



Academia. Revista Latinoamericana de  
Administración

ISSN: 1012-8255

esalgado@uniandes.edu.com

Consejo Latinoamericano de Escuelas de  
Administración  
Organismo Internacional

Manzur, Enrique; Olavarrieta, Sergio; Hidalgo-Campos, Pedro; Farías, Pablo  
Store price promotion strategies: an empirical study from Chile  
Academia. Revista Latinoamericana de Administración, vol. 26, núm. 3, 2013, pp. 356-372  
Consejo Latinoamericano de Escuelas de Administración  
Bogotá, Organismo Internacional

Available in: <http://www.redalyc.org/articulo.oa?id=71629939002>

- How to cite
- Complete issue
- More information about this article
- Journal's homepage in redalyc.org

redalyc.org

Scientific Information System  
Network of Scientific Journals from Latin America, the Caribbean, Spain and Portugal  
Non-profit academic project, developed under the open access initiative



# Store price promotion strategies: an empirical study from Chile

Enrique Manzur, Sergio Olavarrieta, Pedro Hidalgo-Campos and  
Pablo Farías

*Facultad de Economía y Negocios, Universidad de Chile, Santiago, Chile*

## Abstract

**Purpose** – The purpose of this paper is to examine two popular price promotion strategies – price matching guarantees (PMGs) and everyday low prices (EDLP) – and their effects on Chilean consumer behavior in terms of consumer perceptions of low prices, search behavior and purchase intention.

**Design/methodology/approach** – A quasi experiment with three scenarios was conducted to test price promotion effects. Subjects were instructed to respond a questionnaire that included the dependent variables.

**Findings** – Results show that EDLP and PMG strategies increase perceptions of low prices and affect purchase intentions. These effects are significantly higher for stores offering EDLP than PMG. However, when consumers are exposed to two or more price promotion strategies (rather than one) they reduce their purchase intentions for a specific store and increase their search intentions.

**Research limitations/implications** – This is an initial study exploring the effects of price promotion strategies on consumers. Future research could test the hypotheses advanced in the study across different samples and contexts (supermarkets, department stores, convenience stores, and other retailers) and might privilege external validity, using experiments mimicking decisions with real consequences.

**Practical implications** – Retailers and marketers in Latin America – particularly those companies stressing price or value as their differential advantage – should consider the use of price promotions when designing marketing strategies. On the other hand, retailers should be aware that an intensive use of these of promotions could lead to increases in consumer search behavior.

**Originality/value** – While findings from the USA suggest that price promotion strategies can be effective in several contexts, there has been a limited number of studies addressing whether such strategies are effective in other countries, particularly in Latin America and emerging nations.

**Keywords** Purchase intention, EDLP – everyday low prices, PMG – price matching guarantees, Price perception, Price promotion strategies, Search behavior

**Paper type** Research paper

## 1. Introduction

A growing internationalization of the retail trade has occurred in Chile over the last decade. Large global retailing chains such as Wal-Mart and Carrefour, and local operators like Falabella and Cencosud, have expanded throughout Latin American markets, increasing competition and introducing new marketing policies and tactics. A major outcome has been increased price competition, creating a larger variety of pricing formats and promotional offers in grocery stores, supermarkets, pharmacies and department stores. Currently, retailers use a wide range of promotion tools to generate traffic and increase purchasing levels, such as discount coupons, product displays, eye-catching signs, discount pricing and free additional product promotions. Such unilateral strategies prominently display the benefits (e.g. reduced price, additional merchandise at no extra cost) that consumers may expect to enjoy. Another kind of promotion tool is price promotion strategies. Unlike unilateral promotions, price promotion strategies do not offer direct cuts in prices but promise instead to match lower prices should consumers find them.



In the retail industry, two popular price promotion strategies are price matching guarantees (PMGs) and everyday low pricing (EDLP). PMGs are promises made by retailers to match any lower price offered by the competition for an identical brand or model. Generally, customers are asked to present proof of a lower price they may have found at a competing store and then the difference is refunded. EDLP consists of communicating to consumers that every time they shop at a particular store, they will encounter low prices. EDLP involves setting lower average prices and eliminating (or at least strongly reducing) the difference between regular and promoted prices (Tang *et al.*, 2001). Retailers using price promotion strategies expect to benefit through stable sales, customer loyalty, lower inventory carrying costs, reduced advertising costs and lower sales associate salary overheads (Lal and Rao, 1997; Ortmeier *et al.*, 1991; Tom and Ruiz, 1997; Voss and Seiders, 2003).

Many studies have attempted to understand the psychological aspects of prices, concluding that product pricing is a complex matter and that there are many strategies that influence consumer perceptions and purchase intentions (Alba *et al.*, 1994; Chandrashekar and Grewal, 2003; Hardesty and Bearden, 2003; Hidalgo *et al.*, 2008; Manzur *et al.*, 2011). Prior research has investigated how unilateral promotions affect consumer store choice behavior (Bell and Lattin, 1998). However, few researchers have examined the effect of price promotion strategies on consumer price perceptions, search behavior and purchase intentions (Srivastava and Lurie, 2001), despite the fact that the choice of price promotion strategy is one of the most important decisions a retail store makes.

Price promotion strategies are ongoing in nature rather than time-limited offers. They do not try to create a sense of urgency or immediacy to prompt a purchase. Their implicit underlying assumption is that many consumers do not want to spend too much time finding the lowest available price (Lindsey-Mullikin and Petty, 2011). Consumers do not always check prices because they believe that the limited total saving that results from checking prices is not worth the time or effort (Binkley and Bejnarowicz, 2003; Dickson and Sawyer, 1990). Consequently perceived price levels in stores constitute an important competitive tool for retailers. Various studies have indicated that a store's perceived price level is either the first or second most important patronage criterion (Arnold *et al.*, 1983; Cox and Cox, 1990; Kaikati, 1987). Likewise, Buyukkurt (1986) indicates that a consumer's first impressions of stores are very important. In a grocery shopping simulation, Buyukkurt found that consumers formed an initial impression of a store's overall price level that persisted even in the presence of subsequent, contradictory price information. This parallels a widely reported phenomenon in social psychology, in which individuals form quick initial impressions of another person, and then tend to discount subsequent information that contradicts those initial impressions (Cox and Cox, 1990). Recognition of the importance of a store's perceived price level and consumer first impressions has perhaps led many retailers to employ price promotion strategies. A survey shows that nearly half of large retailers in the USA use price promotion strategies (McWilliams and Gerstner, 2006).

Price promotion strategies, popular in the USA, are becoming a common part of consumer life in Latin America and particularly in Chile. While findings from the USA suggest that price promotion strategies can be effective in several contexts (e.g. Chatterjee *et al.*, 2003; Srivastava and Lurie, 2004; White and Yuan, 2012), there has been a limited number of studies addressing whether they are equally effective elsewhere. Little is known about the potential of price promotion strategies in Latin

America because these promotion tools have only been employed occasionally in the region and there is no research that analyzes their effectiveness. Prior research has not answered the question of whether or how price promotion strategies might improve price perception and purchase intentions in Latin America. It is in this context that the current study assesses the effects of EDLP and PMG price promotion strategies on Chilean consumer behavior. In particular, the research questions are the following: What is the effect of these strategies on consumer price perceptions? and How do these strategies affect consumer search and purchase intentions?

Chile is an appropriate case study for this research because Chilean culture is similar to other Latin American cultures when examined using the dimensions proposed by Hofstede (2001). Additionally, Chile is the Latin American economy with the highest penetration of modern retailing approaches, such as supermarket chains, department stores and home centers (Nielsen, 2009).

Section 2 outlines the theoretical approach of the study through a literature review that analyzes PMG and EDLP strategies and their impact on consumer behavior. Section 3 explains the research method, instruments and design decisions; Section 4 presents the results of the study; and Section 5 provides a discussion of the study findings and insights for future research in the field.

## 2. Literature review and proposed hypotheses

### 2.1 Signaling theory and price promotion strategies

Pricing and promotions are at the heart of the free market economic system. According to economic theory, price competition and information are key if markets are to work well. However, economic assumptions of consumer and human behavior are not always consistent with rationality assumptions (Amir *et al.*, 2005) and, consequently, with marketing. Other business disciplines, and psychology, can be key to studying these market imperfections from both a public policy and a corporate social responsibility or “shared value” perspective. Signaling theory emerged from the study of information economics under conditions in which buyers and sellers possess asymmetric information when facing a market interaction (Boulding and Kirmani, 1993; Spence, 1974). Consumers may use these signals when making their search and purchase decisions (Chatterjee and Basuroy, 1997; Hess and Gerstner, 1991; Levy, 1994). Inspired by this argument, several authors have suggested that consumers perceive PMGs and EDLP to be signals of low prices (Biswas *et al.*, 2002; Jain and Srivastava, 2000; Srivastava and Lurie, 2001). Furthermore, PMGs and EDLP may serve as signals of the nature or integrity of the advertised price (Jain and Srivastava, 2000).

Retailers may anticipate consumer reactions and define their pricing strategies accordingly, trying to affect consumer perceptions and behavior (Nakamura and Steinsson, 2011). However, consumers can punish firms for sending false signals (Srivastava and Lurie, 2001). In particular, consumers can withhold repeat purchases, engage in negative word-of-mouth, and call for regulatory action (Ford *et al.*, 1990; Rao *et al.*, 1999; Srivastava and Lurie, 2001; Wernerfelt, 1988). These disciplinary mechanisms are likely to be stronger for search attributes (e.g. price) because they can be evaluated and verified before purchase.

Some key consumer reactions – such as perception of low prices, search behavior and purchase intentions – are regularly studied in the literature on pricing and promotions intentions. These variables are discussed below.

*Consumer perceptions of low prices* involves consumer recognition and belief that a store price level is lower than prices in other stores. Price promotion strategies are

regularly aimed at reinforcing the low price perceptions that consumers may have about a store (Biswas *et al.*, 2002; Srivastava and Lurie, 2001).

*Search behavior.* When consumers want to buy products, they can buy them immediately in a previously identified store or search for the best offer in different stores. This search involves costs (e.g. mental effort, time, transport, physical effort). The more thorough the search, the higher the probability of finding a low price; but the cost to the consumer also increases. Therefore, one goal of price promotion strategies is to reduce consumer search behavior. Consequently, it is important to assess the power of promotion strategies to change the minds of consumers in their search for a low price (Biswas *et al.*, 2002).

*Consumer purchase intentions at store* refers to the degree to which consumers plan to make their purchases at a particular store. This is not the same as the purchase intentions within a store, which depends mainly on in-store prices and purchasing conditions (e.g. variety, credit, assistance, ease of payment and available time). Consumer purchase intentions at store are a key variable for evaluating store and retail promotion strategies (Biswas *et al.*, 2002; Boulding and Kirmani, 1993).

## 2.2 Effects of PMGs

One of the strategies frequently used by retailers consists in announcing that they have lower prices than all their competitors. Campaigns are generally accompanied by a store policy consisting of establishing a “price-matching refund” in order to reinforce the retailer’s commitment. For instance, a store might claim that its PMG policy warrants that consumers will not find lower prices in the retail market. If consumers find that a product they bought in a PMG store has a lower price somewhere else, the PMG store will refund the difference. PMGs are common in many consumer markets including appliances and hardware, books, tires, office products, groceries, and electronics (Biswas *et al.*, 2002; Chen *et al.*, 2001; Kukar-Kinney, 2002; Srivastava and Lurie, 2001).

Research in economics suggests that a price-matching policy is a screening device that retailers use to price discriminate consumers based on search costs (Png and Hirshleifer, 1987). Some authors also suggest that many retailers implement price matching policies in order to decrease competition, allowing them to charge higher prices, as such arrangements make agreement and collusion easier (Koh *et al.*, 2012; Salop, 1986). The presence of a PMG policy acting as a valid market signal may, however, allow the consumer to rely upon the information as a true indication of the lowest market price (Dutta, 2012; Dutta *et al.*, 2011; Srivastava and Lurie, 2004). This is likely because PMG is associated with explicit (e.g. refund) and implicit (e.g. negative word-of-mouth, regulatory action) penalties that any rational firm would rather avoid (Biswas *et al.*, 2002). Consequently, consumers should perceive PMGs as competitive devices that reduce prices rather than collusive devices that raise them (Chatterjee *et al.*, 2003). It is therefore hypothesized that:

*H1a.* PMG strategies increase consumer perceptions of low prices at the PMG store.

*H1b.* PMG strategies increase consumer purchase intentions at the PMG store.

## 2.3 Effects of EDLP

In EDLP strategies, the retailer charges a constant, lower, everyday price with no temporary price discounts, in contrast to competitors who offer periodic unilateral promotions (Hoch *et al.*, 1994). EDLP involves having lower price variability and

represents a significant pricing policy change for most retail stores. Consumers are able to take advantage of lower prices at all times instead of having to wait for a sale (Tom and Ruiz, 1997; Voss and Seiders, 2003). EDLP involves setting lower average prices and eliminating (or at least strongly reducing) the difference between regular and promotional prices (Tang *et al.*, 2001).

Lal and Rao (1997) demonstrate that under certain circumstances, the presence of EDLP and High-Low (HILO) pricing stores can create a perfect Nash equilibrium; thus, the adoption of an EDLP policy could maximize benefits. Hoch *et al.* (1994), who based their research on two large experiments in a Chicago-based supermarket, concluded that EDLP policies produce higher volume sales but may reduce benefits to the retailer, since the increase in volume does not completely make up for the lower margin (Voss and Seiders, 2003). Lacking important information, consumers must gather additional evidence or interpret signs and cues that have some apparent information value. Signals – not just actual prices – can be used by consumers to make deductions when information asymmetries are present. To be reliable, the signal must be costly. The higher the cost of the signal to the retailer, the higher the perceived value by customers, since they realize that marketers will lose a lot by failing to fulfill their promise. As a valid market signal, EDLP helps consumers to differentiate between firms that are seeking to compete using policies such as EDLP from those that cannot provide such policies. Sellers who fail to fulfill the promise of offering EDLP will lose (part of) their reputation (Boulding and Kirmani, 1993). Consumers, then, do perceive the presence of EDLP policies to be signals of low prices and they may serve as evidence regarding the nature or integrity of the advertised price. Based on these arguments, we postulate that:

*H2a.* EDLP strategies increase consumer perceptions of low prices at EDLP stores.

*H2b.* EDLP strategies increase consumer purchase intentions at EDLP stores.

#### *2.4 Competing through signals*

PMGs and EDLP offer a guarantee to the consumer regarding lower prices, and they are somewhat credible since consumers perceive that retailers must pay a cost to implement them. We hypothesize positive effects of implementing these strategies. However, an interesting question relates to which strategy leads to the better results when the competition is using the other.

White and Yuan (2012) show that consumers may perceive PMG retailers as more benevolent than EDLP retailers, leading to higher purchase intentions when the price of a given item varies widely in the marketplace. They propose that although both PMG and EDLP retailers offer low (but not necessarily the lowest) advertised prices, a key difference between the two strategies is the impact of consumer search efforts on the final price paid (the price a consumer ultimately pays to acquire the product from the retailer offering the price promotion strategy after any possible price adjustments have been made). Whereas EDLP retailers offer a daily advertised price that is equal to the final price (because they do not offer price adjustments), it is possible that the final price charged by a PMG retailer will be lower than the daily advertised price if – but only if – the consumer is willing to search the marketplace for additional price information.

According to signaling theory, the larger the cost to the marketer perceived by consumers, the higher the credibility and the effect on purchasing intention.

Ho *et al.* (2012) show that PMGs may trigger more consumer search whereas EDLP may effectively discourage it. The cost of a PMG strategy is essentially monetary since it involves refunding the price difference. The cost of EDLP, on the other hand, is mainly felt in the store (brand) reputation (Boulding and Kirmani, 1993), which retailers might consider to be greater and more significant than simply giving back a particular difference. Secondary costs are also present, and might be perceived by consumers. In the case of PMGs, stores may face a slight reputation loss (e.g. it is not the cheapest store); and in the case of EDLP, consumers may perceive the monetary costs of having to reduce the price level of all products in all stores. On the basis of this reasoning, if consumers focus on initial perceived costs, or if they add secondary costs to their calculations, we may expect the effects of an EDLP strategy to be greater when competing against a PMG strategy. Hence:

*H3a.* PMG vs EDLP → EDLP has a stronger effect on consumer perceptions of low prices.

*H3b.* PMG vs EDLP → EDLP has a stronger effect on consumer purchase intentions.

Since consumers use signals to help them reduce both monetary and non-monetary search costs such as mental effort, time, transport, physical effort, etc., both PMG and EDLP policies help consumers differentiate between stores (Biswas *et al.*, 2002). If they receive one unique signal, they use that signal, but if they received two or more, in the form of price promotion strategies, which are they likely to use?

One survey has shown that nearly half of large retailers in the USA use price promotion strategies (McWilliams and Gerstner, 2006), and the number of retailers employing them has increased significantly in recent years (Borges and Babin, 2012). EDLP and PMGs are easy to copy though, and as increasing numbers of retailers use price promotion strategies, the low price signal becomes less distinctive. Basing our arguments on previous signaling and perceived costs reasoning, we suggest that the presence of more signals will reduce consumer perception of low prices, but will make them more aware of potential price heterogeneity and search benefits, thus increasing search actions and reducing immediate purchase intentions. The positive effects of price promotion strategies in creating differentiation, therefore, become less and less clear. Hence:

*H4.* If more retailers employ price promotion strategies, their effectiveness as a price signal wears off, (a) reducing the perceptions of low prices at the focal store, (b) increasing consumer search behavior, and (c) reducing purchase intentions at the focal store.

### 3. Study design and methods

A quasi experiment was conducted to test the hypothesized effects. Three different stores were created and associated with three different strategies (see Appendix): Store A used PMG, Store B used EDLP, and Store C had no price promotion strategy. Based on these stores, three different scenarios were created:

Scenario 1: Store A (PMG) vs Store C (without price promotion strategy).

Scenario 2: Store B (EDLP) vs Store C (without price promotion strategy).

Scenario 3: Store A (PMG) vs Store B (EDLP).

Numerous studies have demonstrated that the level of consumer involvement in a particular purchase influences the type and extent of information processing (Chandrashekar and Grewal, 2003; Petty *et al.*, 1983). Additionally, researchers suggest that high base prices are regularly associated with greater price dispersion, motivating consumers to increase purchase involvement and price search (Darke *et al.*, 1995; Grewal and Marmorstein, 1994; Srivastava and Lurie, 2001). Consequently, in order to increase the generalizability of our results, the same scenarios were created for two different products, and the same questions were asked to consumers. DVD players (high involvement products, high base prices) and detergents (low involvement products, low base prices) were chosen on the basis of a series of pre-tests and secondary data (Yagci *et al.*, 2009).

Participants were 120 undergraduate students enrolled at a major university in Chile. Student samples have been widely used in market research (e.g. Hardesty *et al.*, 2012; Manzur *et al.*, 2012; Yagci *et al.*, 2009) including by other researchers in this area (e.g. Chatterjee and Basuroy, 1997; Chatterjee *et al.*, 2003; White and Yuan, 2012). Moreover, previous studies have asserted that the use of homogeneous convenience samples improves the internal validity of quasi experimental results (Calder *et al.*, 1981; Cook and Campbell, 1975). No incentives (coupons, gifts, money or so on) were given, in order to avoid potential auto-selection bias. Participants were randomly assigned to one of two survey versions: scenario 1 or scenario 2. After finishing this first task, they received a second survey (scenario 3), enabling it to be compared directly to the other two scenarios. Each subject had to answer the scenarios for both products (DVD player and detergent) with the result that each respondent answered four surveys (2 scenarios  $\times$  2 products).

After the subjects were presented with a particular scenario, they were instructed to respond to a questionnaire that included the dependent variables. Bergkvist and Rossiter (2007) suggest that single-item measures should be used for many marketing constructs consisting of a concrete singular object and a concrete attribute. Consequently, and in line with previous studies (e.g. Hardesty *et al.*, 2012), the three dependent variables were assessed using a single item. For example, after the participants were presented with scenario 1 (DVD player), they had to assess the extent to which they agreed with the following sentences using a seven-point Likert scale ranging from “strongly agree” to “strongly disagree”: “The price of the DVD player in Store A will be lower than in Store C” (perception of low prices), “I would visit both stores to compare prices” (search intentions), and “If I had to choose and I did not know the real prices, it is more probable that I would buy the DVD player in Store A than in Store C” (purchase intentions) (see Appendix). Interviewers were trained to clarify any questions regarding the definitions used, in order to avoid concept confusion.

#### 4. Results

In order to test *H1a*, *H1b*, *H2a*, *H2b*, *H3a* and *H3b* we compared means against a midpoint of four, representing a neutral response (i.e. consumers do not perceive differences in prices between stores and they are not particularly motivated to purchase at one store vs another). Results regarding the single price promotion strategy hypotheses are in the predicted direction and statistically significant (see Table I). In the case of both PMGs and EDLP, when consumers compare the store with another that is not offering price promotions, they will lower their perceptions of the store price level (means  $> 4.92$ ,  $p$ -values  $< 0.01$ ), and increase their purchase



Hypothesis		<i>n</i>	Type of product	Mean	SD	<i>t</i> -value	Significance
<i>H1a</i>	PMG strategy increases consumers' low prices perception of the PMG store	60	DVD player	4.92	1.23	5.795	0.000***
<i>H1b</i>	PMG strategy increases consumers' purchase intention at the PMG Store	60	Detergent	5.15	1.23	7.226	0.000***
		60	DVD player	5.83	1.25	11.352	0.000***
		60	Detergent	5.33	1.48	6.976	0.000***
<i>H2a</i>	EDLP strategy increases consumers' low prices perception of the EDLP store	60	DVD player	5.05	1.11	7.319	0.000***
		60	Detergent	5.47	1.03	11.000	0.000***
<i>H2b</i>	EDLP strategy increases consumers' purchase intention at the EDLP store	60	DVD player	5.68	1.11	11.724	0.000***
		60	Detergent	5.70	1.11	11.871	0.000***
<i>H3a</i>	PMG vs EDLP → EDLP has a stronger effect on consumers' low prices perception	120	DVD player	2.87	1.30	-9.580	0.000***
		120	Detergent	3.32	1.30	-5.746	0.000***
<i>H3b</i>	PMG vs EDLP → EDLP has a stronger effect on consumers' purchase intentions	120	DVD player	3.28	1.43	-5.547	0.000***
		120	Detergent	3.08	1.57	-6.465	0.000***

**Note:** \*\*\**p*-value < 0.01

**Table I.**  
Means, standard deviation and *t*-values

intentions at the store (means > 5.33, *p*-values < 0.01). In the case of competing signals (*H3a* and *H3b*), results support the hypotheses that EDLP produces more positive results in terms of reducing price perceptions (means < 3.32, *p*-values < 0.01) and increasing purchase intentions (means < 3.28, *p*-values < 0.01) when competing against PMGs, confirming the idea that EDLP may be considered by consumers to represent a stronger commitment and signal.

*H4a*, *H4b* and *H4c* were examined by conducting 3 (scenarios) × 2 (DVD player vs detergent) analyses of variance (ANOVA) followed by univariate contrasts between treatment groups (Hair *et al.*, 2006; Keppel, 1991; Neter *et al.*, 1996; Newbold, 1998). Prior to analyzing the data to test the hypotheses, we recoded perceptions of low prices and purchase intentions scores, intentions in order to measure the magnitude of the preferences by each store (1 and 7 → 3; 2 and 6 → 2; 3 and 5 → 1; 4 → 0). The ANOVAs for each variable are presented in Table II and the treatment means are included in Table III. The results for the univariate contrasts are presented in Table IV and the means plotted are presented in Figures 1 to 3.

In general, it is not possible to show that price perceptions are significantly affected if more than one store uses price promotions ( $F = 0.725$ ;  $p = 0.485$ ; see Table II). However, the interaction between scenario and type of product (DVD player vs detergents) was significant ( $F = 5.076$ ;  $p = 0.007$ ; see Table II). Interactions suggested that the effect of the scenario on price perception varied by type of product. Specifically, *t*-values from the univariate contrasts (see Table IV) indicated that *H4a* is only supported for detergents (low involvement products, low base prices) whereas no particular differences were found in terms of price perceptions of DVD players (high involvement products, high base prices). Consequently, *H4a* is only partially supported.

*H4b* proposed that the presence of multiple price promotion strategies (scenario 3 vs scenarios 1 and 2) generates an effect on search intentions. Comparing scenarios for both products, scenario 3 resulted in higher search intentions compared to scenarios 1 and 2 ( $F = 6.004$ ,  $p = 0.003$ ; see Table II). Consequently, *H4b* is supported. Consistent with *H4c*, scenario 3 (multiple price promotion strategies) resulted in lower purchase intentions compared to scenarios 1 and 2 for both products ( $F = 8.734$ ,  $p = 0.000$ ; see Table II). Therefore, *H4c* is supported.

## 5. Discussion

Price promotion strategies, popular in the USA, are becoming a common part of consumer life in Latin America and particularly in Chile. While findings from the USA suggest that price promotion strategies can be effective in several contexts (e.g. Chatterjee *et al.*, 2003; Srivastava and Lurie, 2004; White and Yuan, 2012), little research has examined whether price promotion strategies can be effective in other countries. This study attempts to confirm previous evidence regarding the effects of price promotion strategies in a setting different to the USA or other developed

	Df	Low prices perception		ANOVAs		Purchase intention	
		<i>F</i>	Significance	<i>F</i>	Significance	<i>F</i>	Significance
<i>Main effects</i>							
Scenario	2	0.725	0.485	6.004***	0.003	8.734***	0.000
Type of product	1	1.070	0.301	346.113***	0.000	0.157	0.692
<i>Interaction effect</i>							
Scenario×Type of product	2	5.076***	0.007	0.964	0.382	2.196	0.112
Residual	474						

**Notes:** Scenario 1: Store A (PMG) vs Store C (without price promotion strategy); Scenario 2: Store B (EDLP) vs Store C (without price promotion strategy); Scenario 3: Store A (PMG) vs Store B (EDLP).  
\*\*\**p*-value < 0.01

	Scenario 1		Scenario 2		Scenario 3		Scenarios			Type of product	
	DVD		DVD		DVD					DVD	
	player	Detergent	player	Detergent	player	Detergent	1	2	3	player	Detergent
Low prices perception	1.18 (0.97)	1.38 (0.96)	1.22 (0.92)	1.57 (0.87)	1.40 (1.00)	1.13 (0.93)	1.28 (0.96)	1.39 (0.91)	1.27 (0.97)	1.30 (0.97)	1.30 (0.94)
Search intention	4.97 (1.67)	2.48 (1.67)	5.27 (1.52)	2.40 (1.43)	5.74 (1.15)	2.78 (1.82)	3.73 (2.08)	3.83 (2.05)	4.26 (2.12)	5.43 (2.61)	1.42 (1.69)
Purchase intention	1.93 (1.09)	1.67 (1.08)	1.78 (0.94)	1.73 (1.06)	1.29 (0.95)	1.49 (1.04)	1.80 (1.09)	1.76 (1.00)	1.39 (1.00)	1.58 (1.02)	1.60 (1.05)

**Notes:** Standard Deviations are provided in parentheses. Scenario 1: Store A (PMG) vs Store C (without price promotion strategy); Scenario 2: Store B (EDLP) vs Store C (without price promotion strategy); Scenario 3: Store A (PMG) vs Store B (EDLP)

	Scenario 1 DVD player vs detergent	Scenario 2 DVD player vs detergent	Scenario 3 DVD player vs detergent	DVD player Scenario 1 vs Scenario 2	DVD player Scenario 1 vs Scenario 3	DVD player Scenario 2 vs Scenario 3	Detergent Scenario 1 vs Scenario 2	Detergent Scenario 1 vs Scenario 3	Detergent Scenario 2 vs Scenario 3
Low prices perception	-1.139	-2.137**	2.136**	-0.193	-1.387	-1.190	-1.097	1.678*	3.000***
Search intention	8.147***	10.657***	15.083***	-1.031	-3.650***	-2.343**	0.293	-1.072	-1.428
Purchase intention	1.345	0.274	-1.560	0.808	4.075***	3.290***	-0.341	1.051	1.465

**Notes:** Scenario 1: Store A (PMG) vs Store C (without price promotion strategy); Scenario 2: Store B (EDLP) vs Store C (without price promotion strategy); Scenario 3: Store A (PMG) vs Store B (EDLP). \*\*\**p*-value < 0.01 \*\**p*-value < 0.05 \**p*-value < 0.10

**Table IV.**  
Univariate contrasts  
(*t*-values)

countries. Overall results (see Table V) were consistent with the hypotheses, signaling theory and previous findings from the USA, confirming that price promotion strategies play an important role in shopping behavior.

5.1 Practical implications

Over recent years, some Latin American retailers have used price promotion strategies as a convenient and useful promotion tool. Our results provide some support for the effectiveness of this marketing practice. The announcement of any of the two price promotion strategies, whether EDLP or PMG, increased perceptions of low prices and increased purchase intentions. However, consumers consider that prices are likely to be lower in stores offering EDLP than in PMG stores, and their intentions are more motivated to purchase in the former. EDLP promotions have a stronger effect on consumers no matter the type of product, since consumers perceive them as a stronger

Figure 1.  
Effect of scenario and  
type of product on low  
prices perception



Figure 2.  
Effect of scenario and  
type of product on  
search intention

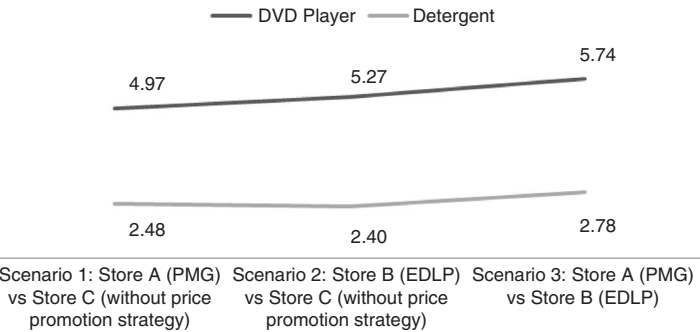
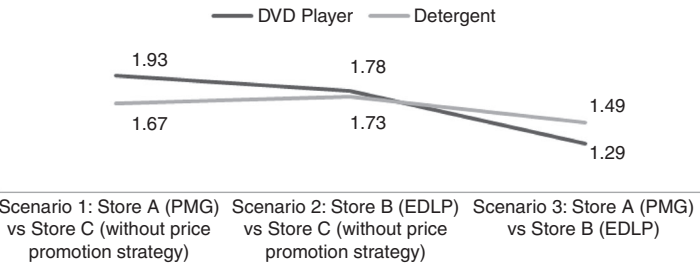


Figure 3.  
Effect of scenario and  
type of product on  
purchase intention



Hypothesis		Supported	Store price promotion strategies  <div>367</div>  <b>Table V.</b> Summary of results
<i>H1a</i>	PMG strategy increases consumers' low prices perception of the PMG store	✓	
<i>H1b</i>	PMG strategy increases consumers' purchase intention at the PMG store	✓	
<i>H2a</i>	EDLP strategy increases consumers' low prices perception of the EDLP store	✓	
<i>H2b</i>	EDLP strategy increases consumers' purchase intention at the EDLP store	✓	
<i>H3a</i>	PMG vs EDLP → EDLP has a stronger effect on consumers' low prices perception	✓	
<i>H3b</i>	PMG vs EDLP → EDLP has a stronger effect on consumers' purchase intentions	✓	
<i>H4a</i>	If more retailers employ price promotion strategies, their effectiveness as a price signal wears off, (a) reducing the low prices perception of the focal store,	Partially	
<i>H4b</i>	(b) increasing the consumer search behavior,	✓	
<i>H4c</i>	(c) reducing the purchase intention at the focal store	✓	

**Table V.**  
Summary of results

signal of commitment on the part of the retailer. Therefore it would be more advisable for retailing companies that stress price as their differential advantage and brand identity, to use an EDLP strategy. While experimental research is not sufficient to establish the generalized superiority of EDLP in Latin America, the results of this research support the view that EDLP may be a more effective strategy than PMGs, at least for many retailers in the region, a finding that might further decrease retailers' incentives to use PMGs in Latin America.

Nonetheless, we observed that the effect of price promotion strategies that compete with others is smaller than if they stand alone. When consumers receive two or more signals, uncertainty about the true price increases the likelihood they will compare prices and reduces intentions to buy in a specific store. The results of the research are consistent with signaling theory. We conclude that the three scenarios examined in the research suggest EDLP to be the most effective strategy. However, the effect of the signals diminishes when the number of signals received by consumers increases. Consequently, promotion wars generate prisoner dilemma effects (the effect of a signal that is forced to go up against another is smaller than would be the case if it had no competition).

The study also shows that when involvement and/or base prices are high (e.g. DVD players), the effects of the type of competition (scenario 3 vs scenarios 1 and 2) might be greater than in market contexts where base prices and/or involvement is lower (e.g. detergents). An implication of these results is that if a store sells high involvement products, and announces EDLP or PMGs, but its prices are not the lowest available, customers will soon realize the fact, – as they will visit more than one store. However, in the case of a store selling low involvement products but that does not have the lowest prices, customers will not notice (at least in the short term), because they will probably visit just that store and purchase there. These findings raise further questions regarding ethical issues, self-regulation of promotions, and the impact on the general public of the credibility both of firms and the market system in general. These questions cry out for further examination.

### 5.2 Limitations and future research

Clearly this is an exploratory study, and a number of other topics are worth exploring in the future. First, although the use of a student sample was appropriate for this case, future studies should use samples of consumers who are part of the target markets for many other product categories. Such studies could increase the generalizability of the results as well as their applicability in Latin America. Second, not all individuals

within a culture are identical. Indeed, there is substantial variation within a culture as well as considerable overlap across different cultures. Individual differences should be incorporated into future research. Third, it would be desirable to collect data from a larger set of product categories, which would probably lead to more significant results overall. Fourth, the experiment could be replicated with real or fictitious brand names. Finally, possible differences between countries make it essential to develop studies that measure, compare, and analyze the different levels of acceptance of price promotion strategies in different countries and their possible causes. This paper attempts to encourage similar research in Latin America that might confirm or refute its results.

### References

- Alba, J.W., Broniarczyk, S., Shimp, T. and Urbany, J. (1994), "The influence of prior beliefs, frequency cues, and magnitude cues on consumers' perceptions of comparative price data", *Journal of Consumer Research*, Vol. 21 No. 2, pp. 219-235.
- Amir, O., Ariely, D., Cooke, A., Dunning, D., Epley, N., Gneezy, U., Koszegi, B., Lichtenstein, D., Mazar, N., Mullainathan, S., Prelec, D., Shafir, S. and Silva, J. (2005), "Psychology, behavioral economics, and public policy", *Marketing Letters*, Vol. 16 No. 3, pp. 443-454.
- Arnold, S.J., Oum, T.H. and Tigert, D.J. (1983), "Determinant attributes in retail patronage: seasonal, temporal, regional, and international comparisons", *Journal of Marketing Research*, Vol. 20 No. 2, pp. 149-157.
- Bell, D. and Lattin, J. (1998), "Shopping behavior and consumer preference for store price format: why 'large basket' shoppers prefer EDLP", *Marketing Science*, Vol. 17 No. 1, pp. 66-88.
- Bergkvist, L. and Rossiter, J. (2007), "The predictive validity of multiple-item versus single-item measures of the same constructs", *Journal of Marketing Research*, Vol. 44 No. 2, pp. 175-184.
- Binkley, J.K. and Bejnarowicz, J. (2003), "Consumer price awareness in food shopping: the case of quantity surcharges", *Journal of Retailing*, Vol. 79 No. 1, pp. 27-35.
- Biswas, A., Pullig, C., Yagci, M.I. and Dwane, D. (2002), "Consumer evaluation of low price guarantees: the moderating role of reference price and store image", *Journal of Consumer Psychology*, Vol. 12 No. 2, pp. 107-118.
- Borges, A. and Babin, B. (2012), "Revisiting low price guarantees: does consumer versus retailer governance matter?", *Marketing Letters*, Vol. 23 No. 3, pp. 777-791.
- Boulding, W. and Kirmani, A. (1993), "A consumer-side experimental examination of signaling theory: do consumers perceive warranties as signals of quality?", *Journal of Consumer Research*, Vol. 20 No. 1, pp. 111-123.
- Buyukkurt, B.K. (1986), "Integration of serially sampled price information: modeling and some findings", *Journal of Consumer Research*, Vol. 13 No. 3, pp. 357-373.
- Calder, B., Phillips, L. and Tybout, A. (1981), "Designing research for application", *Journal of Consumer Research*, Vol. 8 No. 2, pp. 197-207.
- Chandrashekar, R. and Grewal, D. (2003), "Assimilation of advertised reference prices: the moderating role of involvement", *Journal of Retailing*, Vol. 79 No. 1, pp. 53-62.
- Chatterjee, S. and Basuroy, S. (1997), "Consumer reactions to price-matching signals", *Advances in Consumer Research*, Vol. 24 No. 1, pp. 400-404.
- Chatterjee, S., Heath, T.B. and Basuroy, S. (2003), "Failing to suspect collusion in price-matching guarantees: consumer limitations in game-theoretic reasoning", *Journal of Consumer Psychology*, Vol. 13 No. 3, pp. 255-267.

- Chen, Y., Chakravarti, N. and Zhang, Z. (2001), "Research note: consumer heterogeneity and competitive price-matching guarantees", *Marketing Science*, Vol. 20 No. 3, pp. 300-314.
- Cook, T. and Campbell, D. (1975), "The design and conduct of experiments and quasi experiments in field settings", in Dimmette, M. (Ed.), *Handbook of Industrial and Organisational Research*, Rand McNally, Chicago, IL, pp. 223-326.
- Cox, A.D. and Cox, D. (1990), "Competing on price: the role of retail price advertisements in shaping store-price image", *Journal of Retailing*, Vol. 66 No. 4, pp. 428-446.
- Darke, P.R., Freedman, J. and Chaiken, S. (1995), "Percentage discounts, initial price, and bargain hunting: a heuristic-systematic approach to price search behavior", *Journal of Applied Psychology*, Vol. 80 No. 5, pp. 580-586.
- Dickson, P.R. and Sawyer, A.G. (1990), "The price knowledge and search of supermarket shoppers", *Journal of Marketing*, Vol. 54 No. 3, pp. 42-53.
- Dutta, S. (2012), "Vulnerability to low-price signals: an experimental study of the effectiveness of genuine and deceptive signals", *Journal of Retailing*, Vol. 88 No. 1, pp. 156-167.
- Dutta, S., Biswas, A. and Grewal, D. (2011), "Regret from postpurchase discovery of lower market prices: do price refunds help?", *Journal of Marketing*, Vol. 75 No. 6, pp. 124-138.
- Ford, G.T., Smith, D. and Swasy, J. (1990), "Consumer skepticism of advertising claims: testing hypothesis from economics of information", *Journal of Consumer Research*, Vol. 16 No. 4, pp. 433-441.
- Grewal, D. and Marmorstein, H. (1994), "Market price variation, perceived price variation and consumers' price search decisions for durable goods", *Journal of Consumer Research*, Vol. 21 No. 3, pp. 453-460.
- Hair, J., Black, B.B., Anderson, R. and Tatham, R. (2006), *Multivariate Data Analysis*, 6th ed., Prentice-Hall, Upper Saddle River, NJ.
- Hardesty, D. and Bearden, W. (2003), "Consumer evaluations of different promotion types and price presentations: the moderating role of promotional benefit level", *Journal of Retailing*, Vol. 79 No. 1, pp. 17-25.
- Hardesty, D., Bearden, W., Haws, K. and Kidwell, B. (2012), "Enhancing perceptions of price-value associated with price-matching guarantees", *Journal of Business Research*, Vol. 65 No. 8, pp. 1096-1101.
- Hess, J.D. and Gerstner, E. (1991), "Price-matching policies: an empirical case", *Managerial and Decisions Economics*, Vol. 12 No. 4, pp. 305-315.
- Hidalgo, P., Manzur, E., Olavarrieta, S. and Farias, P. (2008), "Customer retention and price matching: the AFPs case", *Journal of Business Research*, Vol. 61 No. 6, pp. 691-696.
- Ho, H., Ganesan, S. and Oppewal, H. (2012), "The impact of store-price signals on consumer search and store evaluation", *Journal of Retailing*, Vol. 87 No. 2, pp. 127-141.
- Hoch, S.J., Dreze, X. and Purk, M.E. (1994), "EDLP, hi-lo, and margin arithmetic", *Journal of Marketing*, Vol. 58 No. 4, pp. 16-27.
- Hofstede, G. (2001), *Culture's Consequences: Comparing Values Behaviors Institutions and Organizations Across Nations*, Sage Publications, Thousand Oaks, CA.
- Jain, S. and Srivastava, J. (2000), "An experimental and theoretical analysis of price-matching refund policies", *Journal of Marketing Research*, Vol. 37 No. 3, pp. 351-362.
- Kaikati, J.G. (1987), "The boom in Warehouse Clubs", *Business Horizons*, Vol. 30 No. 2, pp. 68-73.
- Keppel, G. (1991), *Design and Analysis: A Researcher's Handbook*, 3rd ed., Prentice Hall, Englewood Cliffs, NJ.
- Koh, D., Moon, J. and Schellhase, R. (2012), "Price-matching guarantees: influences on pricing strategy in a market with asymmetric firms", *Journal of Business Research*, Vol. 65 No. 11, pp. 1551-1557.

- Kukar-Kinney, M. (2002), "Consumer response to price-matching guarantees: the moderating role of consumer and retailer characteristics", *AMA Winter Educators' Conference: Proceedings*, Vol. 13, pp. 156-157.
- Lal, R. and Rao, R. (1997), "Supermarket competition: the case of every day low pricing", *Marketing Science*, Vol. 16 No. 1, pp. 60-80.
- Levy, D.T. (1994), "Guaranteed pricing in industrial purchases", *Industrial Marketing Management*, Vol. 23 No. 4, pp. 307-313.
- Lindsey-Mullikin, J. and Petty, R. (2011), "Marketing tactics discouraging price search: deception and competition", *Journal of Business Research*, Vol. 64 No. 1, pp. 67-73.
- McWilliams, B. and Gerstner, E. (2006), "Offering low price guarantees to improve customer retention", *Journal of Retailing*, Vol. 82 No. 2, pp. 105-113.
- Manzur, E., Olavarrieta, S., Hidalgo, P., Farias, P. and Uribe, R. (2011), "Store brand and national brand promotion attitudes antecedents", *Journal of Business Research*, Vol. 63 No. 3, pp. 286-291.
- Manzur, E., Uribe, R., Hidalgo, P., Olavarrieta, S. and Farias, P. (2012), "Comparative advertising effectiveness in Latin America: evidence from Chile", *International Marketing Review*, Vol. 29 No. 3, pp. 277-298.
- Nakamura, E. and Steinsson, J. (2011), "Price setting in forward looking customer markets", *Journal of Monetary Economics*, Vol. 58 No. 3, pp. 220-233.
- Neter, J., Kutner, M.H., Nachtsheim, C.J. and Wasserman, W. (1996), *Applied Linear Statistical Models*, 4th ed., Irwin Editorial, Chicago, IL.
- Newbold, P. (1998), *Estadística para los Negocios y la Economía*, 4th ed., Prentice Hall, Madrid.
- Nielsen (2009), *Who Will Win The Battle Of The Shelf? Branded or Private Label Products?* AC Nielsen Global Services, New York, NY.
- Ortmeyer, G., Quelch, J.A. and Salmon, W. (1991), "Restoring credibility to retail pricing", *Sloan Management Review*, Vol. 33 No. 1, pp. 55-66.
- Petty, R.E., Cacioppo, J.T. and Schumann, D. (1983), "Central and peripheral routes to advertising effectiveness: the moderating role of involvement", *Journal of Consumer Research*, Vol. 10 No. 2, pp. 135-146.
- Png, I. and Hirshleifer, D. (1987), "Price discrimination through offers to match price", *Journal of Business*, Vol. 60 No. 3, pp. 365-383.
- Rao, A., Qu, L. and Ruekert, R.W. (1999), "Signaling unobservable product quality through a brand ally", *Journal of Marketing Research*, Vol. 36 No. 2, pp. 258-268.
- Salop, S.C. (1986), "Practices that (credibly) facilitate oligopoly coordination", in Stiglitz, J.E. and Matheson, G.F. (Eds), *New Development in the Analysis of Market Structure*, MIT Press, Cambridge, MA, pp. 265-290.
- Spence, M. (1974), *Market Signaling*, Harvard University Press, Cambridge, MA.
- Srivastava, J. and Lurie, N. (2001), "A consumer perspective on price-matching refund policies: effect on price perceptions and search behavior", *Journal of Consumer Research*, Vol. 28 No. 2, pp. 296-307.
- Srivastava, J. and Lurie, N. (2004), "Price-matching guarantees as signals of low store prices: survey and experimental evidence", *Journal of Retailing*, Vol. 80 No. 2, pp. 117-129.
- Tang, C.S., Bell, D.R. and Teck-Hua, H. (2001), "Store choice and shopping behavior: how price format works", *California Management Review*, Vol. 43 No. 2, pp. 56-74.
- Tom, G. and Ruiz, S. (1997), "Eveready low price or sale price", *Journal of Psychology*, Vol. 131 No. 4, pp. 401-406.
- Voss, B. and Seiders, K. (2003), "Exploring the effect of retail sector and firm characteristics on retail price promotion strategy", *Journal of Retailing*, Vol. 79 No. 1, pp. 37-52.



- Wernerfelt, B. (1988), "Umbrella branding as a signal of new product quality: an example of signaling by posting a Bond", *RAND Journal of Economics*, Vol. 19 No. 3, pp. 458-466.
- White, T. and Yuan, H. (2012), "Building trust to increase purchase intentions: the signaling impact of low pricing policies", *Journal of Consumer Psychology*, Vol. 22 No. 3, pp. 384-394.
- Yagci, M., Biswas, A. and Dutta, S. (2009), "Effects of comparative advertising format on consumer responses: the moderating effects of brand image and attribute relevance", *Journal of Business Research*, Vol. 62 No. 8, pp. 768-774.

### Appendix. Sample scenario: scenario 1 – DVD player

Imagine that you wish to buy a DVD player, and are interested in buying from one of two stores. Each is the same distance from your home, but in opposite directions, and quite a long way away:

#### Store A

Store A guarantees to pay you the difference if you find the same product cheaper in another store

#### Store C

Store C does not have any price promotion strategy

### Indicate your agreement with the following phrases

(1) The price of the DVD player in Store A will be lower than in Store C:

1	2	3	4	5	6	7
Strongly Disagree, The price in Store C will be lower than in Store A			The prices in both stores are equal			Strongly Agree, The price in Store A will be lower than in Store C

(2) I would visit both stores to compare prices:

1	2	3	4	5	6	7
Strongly Disagree						Strongly Agree

(3) If I had to choose and I did not know the real prices, it is more likely that I would buy the DVD player in Store A than in Store C:

1	2	3	4	5	6	7
Strongly Disagree, It is more likely that I would buy the DVD player in Store C			I would be happy to buy it in either store			Strongly Agree, It is more likely that I would buy the DVD player in Store A

#### **About the authors**

Dr Enrique Manzur is an Associate Professor, Facultad de Economía y Negocios, Universidad de Chile, Santiago, Chile; PhD in Marketing, University of Georgia; Vice Dean, Facultad de Economía y Negocios, Universidad de Chile. Dr Enrique Manzur is the corresponding author and can be contacted at: [emanzur@fen.uchile.cl](mailto:emanzur@fen.uchile.cl)

Dr Sergio Olavarrieta is an Associate Professor, Facultad de Economía y Negocios, Universidad de Chile, Santiago, Chile; PhD in Marketing, University of Georgia; Associate Dean Escuela de Postgrado Economía y Negocios, Universidad de Chile.

Pedro Hidalgo-Campos is an Associate Professor, Facultad de Economía y Negocios, Universidad de Chile, Santiago, Chile; MSc in Marketing, University of Kansas; Head of the Business Administration Department, Facultad de Economía y Negocios, Universidad de Chile.

Dr Pablo Farias is an Assistant Professor, Facultad de Economía y Negocios, Universidad de Chile, Santiago, Chile; PhD in Marketing, Universidad de Valladolid.