

Do Consumers Take Advantage of Common Pricing Standards? An Experimental Investigation

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Management Science

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BACKGROUND

- Price comparisons are easier to make when competing suppliers express their prices using common standards (e.g. common quantity units, common conventions about what is included in headline prices).
- Gaudeul and Sugden (*Economica*, 2012) have argued that if some but not all products in a market are priced in a common standard, consumers will discriminate in favour of common-standard offers. Thus, common standards tend to be self-enforcing.

METHODOLOGY

- The article investigates whether consumers favour common-standard offers.
- Reports an experiment in which participants faced price-comparison tasks similar to those in Gaudeul and Sugden's (2012) model. A range of offers were provided and buyers were encouraged to find the minimum price. Two hypotheses were tested: that consumers benefit from the existence of common standards, even if all suppliers do not use them, and that consumers discriminate in favour of offers that are priced in terms of such standards.

KEY FINDINGS

- Participants were much better able to find low prices in tasks in which all offers were priced in a common standard than in other tasks. However, they gained little benefit from common standards that were used by some but not all offers.
- When some but not all offers were common-standard, common-standard offers were more likely to be reviewed than other offers, but were less likely to be selected. The most likely explanation of these findings is that participants used a two-stage decision rule. In the first stage, all common-standard offers were inspected and all but the lowest-price offer were rejected. The surviving offer was then compared with the other offers. This rule discriminates *against* common-standard offers.

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POLICY ISSUES

- The failure of competing suppliers to use common pricing standards is a market-level form of obfuscation which impairs price competition.
- Experimental evidence does not support the hypothesis that common pricing standards are self-enforcing.

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