Is a High Refund Strategy Always Effective?

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ABSTRACT

Retailers often use a refund strategy to guarantee that their products are the lowest price. However, does a high refund strategy announced by retailers definitively help consumers to believe that their products have the lowest price? Hierarchical moderator regression analysis was used to examine the moderating effect of a retailer’s reputation on the relationship between refund size and the believability of the lowest price. The results indicate that refund size has no direct effect on the believability of the lowest price and the effect is moderated by a retailer’s reputation. For reputable retailers, refund size has a positive influence on the believability of the lowest price. For less reputable retailers, refund size has a negative influence on the believability of the lowest price. Prior studies neglected the importance of a retailer’s reputation in implementing refund strategies. This study has resolved this research gap.

Keywords: believability of the lowest price, guarantee strategy, refund size, retailer’s reputation.

INTRODUCTION

Retailers often use low-price guarantees (LPGs) as a signal to attract consumers and increase sales. Consumers interpret LPGs as signals that a particular retailer is committed to low prices (Borges, and Babin, 2012). Price-matching guarantees (PMGs) are commonly used by retailers as promises to match the lowest price for an item that a customer can find elsewhere (Yuan and Krishna, 2011). Signaling theory has been used to understand the overall effect of a PMG on consumer perceptions (Borges, 2009). For instance, extant research has shown that stores that offer PMGs increase the consumers’ buying probability because consumers believe that the products in those stores are less expensive and have the same level of quality as those that do not offer a PMG (Jain and Srivastava, 2000); thus, a PMG enhances consumer perceptions of price value (Hardesty et al., 2012). In addition, an PMG also has other advantages in reducing consumers’ price comparisons prior to purchases (Srivastava and Lurie, 2001).

There are two types of low-price guarantee strategies based on the level of refund: a price-matching guarantee in which the price difference is refunded and a price-beating guarantee in which a retailer offers additional compensation (Desmet and Le Nagard, 2005). Although Desmet and Le Nagard (2005) indicated that low-price guarantees increase consumers’ confidence that a store has lower prices and increases patronage intentions and that the effect of a price-beating guarantee is greater than that of a price-matching guarantee, they neglected the characteristics of retailers that adopt low-price guarantee strategies, such as retailer reputation. Moreover, few studies have examined the influence of refund size on the believability of the lowest price, and such studies lack consistent conclusions. For example, Ku et al. (2006) demonstrated a positive path, whereas Wong and Liu (2004) indicated a negative path, although it was not significant. Because of the inconsistent finding for the effect that a refund strategy produces, this study poses some questions: Are there some factors that moderate the influence of refund size on the believability of the lowest price? Is it effective for all retailers to use a high refund strategy to guarantee the lowest price? Does a consumer always believe the guarantee of the lowest price without caring about who guarantees it? This study aims to test the effect of refund size on consumers’ beliefs regarding low
prices and to test the moderating role of retailer reputation. The purpose is to determine the type of retailers for which high refund strategies are appropriate for guaranteeing the lowest price. The results of this study can clearly explain the relationship between refund size and consumers’ beliefs regarding low prices and contribute to retailers’ use of low-price strategies.

LITERATURE REVIEW AND HYPOTHESIS DEVELOPMENT

The lowest-price guarantee strategy
Retailers can send a signal of low price to consumers by offering a guarantee of their lower prices. A PMG is a strategy that is often used to guarantee low price. PMGs indicate that retailers will follow the lowest prices in the market to maintain an image of the lowest price. If consumers can purchase a similar product at a lower price elsewhere, then such a retailer will refund the difference or even sometimes refund multiple times the difference (Kukar-Kinney and Walters, 2003; Sivakumar and Weigand, 1997). Unlike most price promotions, PMGs do not reduce prices to promote products; rather, the strategy promises as low a price as rivals (Sivakumar and Weigand, 1996). In addition, PMGs generally refer to a guarantee of the lowest price of all products in a store (Kukar-Kinney and Walters, 2003; Lurie and Srivastava, 2005). PMGs are widely adopted by retail stores.

Lurie and Srivastava (2005) indicated that many people believe that only stores with a lowest-price guarantee sell products with low prices. Through PMGs, stores induce consumers to perceive that their products have a lower price and reduce the possibility of consumers searching for other stores selling products with low prices (Jain and Srivastava, 2000; Srivastava and Lurie, 2001).

Refund size
Refund size in the guarantee of the lowest price refers to the refund amount that consumers can obtain when they fulfill the rights offered in the retailers’ guarantee clauses (Kukar-Kinney and Walters, 2003); in short, refund size is the refund amount (Kukar-Kinney, 2006) and is based chiefly on multiples of the price difference between the retailer’s price and the lowest price in the market (Sivakumar and Weigand, 1996).

Because an increasing number of stores in Taiwan are using refund strategies to guarantee the lowest price, the guarantee becomes banal, and the effect of the signal can be reduced. Indeed, if many retailers offer a PMG, then the signal becomes trivial and loses its capacity to express the lowest price. To avoid this situation, some retailers enhance the refund size to attract consumers with high price sensitivity. Although the price strategy of high refund is used by many retailers, we do not know whether the price strategy of high refund is always effective in guaranteeing the lowest price. Thus, it is important to understand whether the signal of high refund is always effective in guaranteeing the lowest price.

The literature review reveals that one study has verified that high refund does not consistently produce high credibility (Borges, 2009). The results confirm that an EDLP (everyday low price) cue moderates the effect of refund size on consumers’ beliefs and intentions regarding a retailer’s price policy. When a retailer announces EDLP, a high refund increases low price credibility. However, for a retailer that does not announce EDLP, a low refund would be the best option because a high refund will have the same effect as no PMG at all. The study of Borges (2009) was based on the arrangement of two price cues and aimed to describe the effect of refund size. It is thus evident that to produce the effect of refund size, retailers should account for various moderating factors or conditions.
The moderating role of retailer reputation

This study elaborates the relationship between refund size and the believability of the lowest price based on a moderating variable—retailer reputation. A firm's reputation is a valuable intangible asset. For retailers, reputation may be one of the key sources of competitive advantage (Bensebaa, 2004). Only by understanding consumer trust in retailers can such firms effectively apply corresponding strategies to secure long-term success (Raml et al., 2012). The believability of the lowest price reflects consumers’ trust in the retailers’ guarantee of the lowest price (Kukar-Kinney and Walters, 2003). When the brand image of a product is good, consumers perceive high product quality (Tsai and Lee, 2005), and their perceived risk concerning product functions is reduced (Dodds et al., 1991; Grewal et al., 1998). Likewise, a retailer with a good reputation means that the retailer will be perceived as possessing high store quality with low risk to consumers. A high level of believability in a retailer would result in a high level of consumer purchase intentions (Boulding and Kirmani, 1993). Signaling theory indicates that the believability of a signal is related to the costs that a retailer must confront in the case of a false signal. The costs may be direct (money that the retailer will reimburse) or indirect (damage to the store’s reputation) (Spence, 2002).

This study applies the above concept about a retailer’s reputation to the lowest-price guarantee strategy. Generally, retailers with good reputations would be more reliable for consumers. However, in terms of low refund, fulfilling the promise of refund is easy for all retailers. Therefore, the difference in the believability of the lowest price between retailers with high and low reputations is not large. Inversely, in terms of high refund, fulfilling a refund promise is more difficult because of the associated high loss. Under this condition of high refund, consumers perceive higher risks. When a consumer finds that a reputable retailer’s price is not the lowest price, the retailer should have higher motivation to load high refund loss to maintain his/her reputation. In addition, reputable retailers are perceived to be more capable of guaranteeing the lowest price of products. Thus, consumers will regard high refund as the reputable retailer’s ambition of guaranteeing the lowest price. On the contrary, consumers are more suspicious of a less reputable retailer’s ability to fulfill high refunds. Moreover, for less reputable retailers, failing to fulfill their refund commitment will cause less damage to their image. Thus, consumers tend to think that a less reputable retailer’s high refund is simply a strategy to attract consumers; thus, this strategy would not necessarily enhance the believability of the lowest price. Accordingly, this study proposes the following hypothesis.

**Hypothesis 1:** A retailer’s reputation can moderate the influence of refund size on the believability of the lowest price. For reputable retailers, refund size has a positive influence on the believability of the lowest price. For less reputable retailers, refund size has a negative influence on the believability of the lowest price.

**RESEARCH METHOD**

Research framework

The framework of this study includes one independent variable (refund size), one moderating variable (a retailer’s reputation), and one dependent variable (the believability of the lowest price). This study attempts to clarify the influence of refund size on the believability of the lowest price by exploring the moderating role of a retailer’s reputation. In other words, this study attempts to determine whether individual retailers should consider their reputation when they select a refund strategy to encourage consumers to believe that their prices are the lowest. The research framework is shown in Figure 1.
Targeting industry and product

Retailers in some industries frequently adopt a lowest-price guarantee strategy, including specialty stores, daily commodity retailers, 3C retailers, home and DIY shops, and office supplies (Lurie and Srivastava, 2005). In the selection of the targeting industry and product, because this study uses undergraduates in Taiwan as research subjects, the following three principles were considered: (1) consumption frequency, (2) familiarity, and (3) frequency of retailers’ use of the lowest-price guarantee strategy. This study finds that the product that undergraduates often purchase is the daily commodity and that students are familiar with the daily commodity. In addition, daily commodity retailers often use the lowest-price guarantee strategy. Thus, this study chose to use daily commodity retailers as the research focus.

The difference in the daily commodities sold by different retailers in Taiwan is small, and the intensity of daily commodity retailers is high, especially in cities. Therefore, the retail market of this industry competes intensely, causing many retailers to use the low-price strategy. Retailers that have used the lowest-price guarantee strategy include COSTCO, Ai Mai, Carrefour, Taisuco, RT-Mart, and Watsons. Some famous slogans have been generated by these strategies, including the following examples: Watsons’ “I dare to vow, Watsons is cheapest”; Carrefour’s “everyday low price”; Ai Mai’s “overpaid here, refund five times the price difference”; and RT-Mart’s “truly cheap, satisfaction guaranteed.”

Sample

The sample of this study was undergraduates in Taiwan. The data were collected from three cities of Taipei, Taichung, and Tainan in Taiwan (in the north, center and south, respectively). To assure similar data collection procedures, the researchers employed in three cities underwent the same training. Each researcher was informed of the study purpose and survey techniques to ensure that the respondents were willing to answer the questionnaires. In each city, the researchers visited universities and, through the use of purposive sampling, searched for undergraduates with experience shopping for daily commodities in discount stores and with experiencing receiving refund messages. These qualified undergraduates then read an advertisement content in our designed questionnaire, and accordingly, they responded to the questionnaire items concerning refund size, retailer reputation and the believability of the lowest price. In total, this study obtained six hundred valid questionnaires.

Operational definitions and measurement of variables

The measurements of three constructs are based on 7-point Likert scales (from fully disagree to fully agree; 1–7 points, respectively). A high score refers to a high level of a variable.

(1) Refund size

This study follows the definition of refund size that has been used in past literature (Kukar-Kinney, 2006; Kukar-Kinney and Walters, 2003; Sivakumar and Weigand, 1996). The operational definition of
refund size is the multiple of the price difference that a retailer promises to refund if a consumer finds a lower price elsewhere for the same products.

In the design of refund size, this study uses one to five times the price difference refund shown in different questionnaire versions because these price differences are really occurred in the daily commodity industry in Taiwan. Respondents express their perceptions based on their reading for refund size shown in their questionnaire. The measurement of refund size includes the following three items:
1. The refund size of the retail store is higher.
2. The refund multiples of the retail store are greater.
3. The refund guarantee of the retail store is more significant than that of other retail stores.

(2) Retailer reputation

The operational definition of a retailer’s reputation is consumer perceptions of the level of good impression of a retailer.

Among the daily commodity retailers in Taiwan, COSTCO, Ai Mai, Carrefour, Taisuco, RT-Mart, and Watsons had ever implemented the lowest-price guarantee strategy. Pretest results indicated that these retailers have significant differences in their reputations. Each questionnaire shows only one of these retailers. This study adopts four items that were used by Bennett and Gabriel (2001) to measure the retailer’s reputation.
1. The retail store has good quality management.
2. The retail store provides high-quality service.
3. The retail store has a bright future.
4. The retail store is often positively referred to in the media.

(3) Believability of the lowest price

Based on past literature (Jain and Srivastava, 2000; Kukar-Kinney and Walters, 2003), the operational definition of the believability of the lowest price in this study is the degree to which a consumer believes that a retailer’s products are the lowest price in market. The measurement designed in this study includes the following three items:
1. I believe that the retail store has the lowest price.
2. I believe that the products in the retail store are the cheapest.
3. The guarantee of the lowest price in the retail store is reliable.

Reliability and validity of measurements

This study tests the reliability and validity of the measurements by CFA (confirmatory factor analysis). The individual item reliabilities of all items are between 0.70 and 0.91, which are higher than the criterion of 0.5. The composite reliabilities of the three latent variables are between 0.94 and 0.95, which are higher than the criterion of 0.6, as suggested by Fornell and Larcker (1981). With regard to validity, the factor loadings (λ) of the latent variables are between 0.84 and 0.95, which are higher than the threshold value of 0.45, as suggested by Jöreskog and Sörbom (1992). The average variance extracted of the three latent variables are between 0.82 and 0.84, which are higher than the threshold value of 0.5. The following results indicate the model fit: chi-squared ratio=2.49; GFI=0.97; AGFI=0.96; SRMR=0.023; RMSEA=0.050; CN=395.99. Thus, the measurements used in this study have demonstrated good reliability and validity.
RESEARCH RESULTS

This study validates hypothesis 1 using a hierarchical moderator regression analysis. Because an interaction term is involved, the independent variable and moderating variable were mean-centered to avoid multicollinearity. The empirical results indicate that the variance inflation factor (VIF) is less than 2 (Table 1). Thus, there is no serious multicollinearity problem.

In Model 1, the test result of significance of the overall model, F (1, 598) = 0.069, does not meet the significance level (p<0.05), thus indicating that Model 1 is insignificant. R^2 = 0.000 indicates that refund size cannot explain any variance in the believability of the lowest price. The standardized regression coefficient (β) is -0.011, which does not meet the significance level (p < 0.05). In other words, there is no direct effect of refund size on the believability of the lowest price.

The empirical results of Model 2 show that when the retailer’s reputation is included, the test result of the significance of the overall model, F (2, 597) = 29.689, reaches the significance level (p < 0.001). Among the two independent variables, the retailer’s reputation positively influences the believability of the lowest price (β is 0.304, p < 0.001), whereas refund size does not influence the believability of the lowest price (β is -0.055, p > 0.05). Compared with Model 1, Model 2 yields an increase of 0.090 in the explained variance of the believability of the lowest price (change F (1, 597) = 59.301, p < 0.001). When a retailer is more reputable, consumers more tend to believe in its guarantee of the lowest price.

Compared with Model 2, Model 3 includes the interaction between refund size and retailer reputation. The test result of the significance of the overall model, F (3, 596) = 28.344, reaches the significance level (p < 0.001). R^2 for Model 3 is 0.125, and Model 3 has higher R^2 by 0.034 than Model 2 (change F (1, 596) = 23.426, p < 0.001); this result demonstrates that after including the interaction between refund size and retailer reputation, Model 3 explains 3.4% more of the variance in the believability of the lowest price than Model 2. The standardized regression coefficient (β) of the interaction between refund size and retailer reputation is 0.187, which is significant (p < 0.001). The interaction is positive, which indicates that the interaction of refund size and retailer reputation can positively influence the believability of the lowest price. In other words, when a retailer is more reputable, the relationship between refund size and the believability of the lowest price is more likely to be positive.

The regression result for Model 3 is shown below:

Believability of the lowest price = -0.035 × refund size + 0.301 × retailer reputation + 0.187 × refund size × retailer reputation

Before this study conducted hierarchical moderator regression analysis, retailer reputation was
mean-centered. Thus, the mean of retailer reputation is 0. When the retailer’s reputation is at the mean, the standardized regression coefficient ($\beta$) of refund size is -0.035. When the retailer’s reputation is greater than 0.187, the standardized regression coefficient ($\beta$) of refund size is positive; otherwise, it is negative. In other words, when the level of a retailer’s reputation is sufficiently high, the relationship between refund size and the believability of the lowest price tends to be positive; otherwise, it is negative.

In addition, this study simultaneously differentiates by refund size on the right and left sides of the above equation. The above equation, after being differentiated, becomes the following equation, and the result is shown in Figure 2.

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d \frac{\text{believability of the lowest price}}{\text{refund size}} = -0.035 + 0.187 \times \text{retailer reputation}
\]

When the retailer’s reputation is lower than 0.187, the value of differentiation is negative, thus indicating that the relationship between refund size and the believability of the lowest price is negative. Conversely, when the retailer’s reputation is greater than 0.187, the value of differentiation is positive, hence indicating that the relationship between refund size and the believability of the lowest price is positive. Thus, the findings of this study support “H1: A retailer’s reputation can moderate the influence of refund size on the believability of the lowest price. For reputable retailers, refund size has a positive influence on the believability of the lowest price. For less reputable retailers, refund size has a negative influence on the believability of the lowest price.”

**CONCLUSIONS AND SUGGESTIONS**

**Conclusions**

Some retailers attract consumers using lowest-price guarantee strategies. Among these strategies, refund strategy is frequently used by retailers. Thereby, retailers who use refund strategy wish consumers to believe that their products have the lowest prices in the market. Unfortunately, prior studies have not confirmed that high refund is consistently helpful for all retailers to ensure that consumers believe that their products have the lowest price. In particular, prior studies have neglected the importance of a retailer’s reputation in implementing refund strategy. This study has resolved this research gap and presents an important finding—that there is no significant direct relationship between refund size and the believability of the lowest price unless the retailer’s reputation is considered. Furthermore, there is a positive relationship between a reputable retailer’s refund size and the believability of the lowest price,
whereas there is a negative relationship between a less reputable retailer’s refund size and the believability of the lowest price.

Thus, refund strategy in PMGs must be used carefully. A strategy of high refund is not always effective. In terms of retailer reputations, this strategy of high refund is effective only for highly reputable retailers. In other words, consumers appear to care about the quality of the retailer that announces the refund message of guaranteeing the lowest price. The same guarantee slogan has varying levels of effectiveness coming from different retailers. The influence of refund size on the believability of the lowest price is moderated by certain factors, such as a retailer’s reputation.

Regarding the influence of refund size on the believability of the lowest price, Ku et al. (2006) and Wong and Liu (2004) presented inconsistent conclusions. Based on the findings of the current study, retailer reputation can explain the inconsistent conclusions in the past. If the sample includes reputable retailers, the result is similar to Ku et al.’s (2006) finding of a positive path. However, if the sample includes retailers with varying quality of reputation, the result is similar to Wong and Liu’s (2004) finding of a negative but non-significant path. Our study contributes to signal theory because it demonstrates that high signal cost (high refund) has different meanings for retailers with high and low reputations; for the former, it is a pledge, whereas for the latter, it generates suspicion.

Managerial implications

This study demonstrates the moderating effect of a retailer’s reputation on the relationship between refund size and the believability of the lowest price. Reputable retailers’ refund size positively influences the believability of the lowest price, whereas less reputable retailers’ refund size negatively influences the believability of the lowest price. Thus, with regard to the managerial implications, this study may help retailers better design their PMGs. When a retailer does not have a good reputation, it should not offer a PMG with high refund because high refund increases consumers’ suspicion. However, if a retailer has a good reputation, it could offer a PMG with high refund because such a refund increases the believability of the lowest price. This study suggests that when retailers use a refund strategy to guarantee the lowest price, they should consider their reputations as well. Specifically, reputable retailers are more likely to benefit from the use of high refund, whereas less reputable retailers should adopt a strategy of low refund.

Suggestions for future researchers

This study focuses on the lowest-price guarantee strategy. Undergraduates were selected as the research targets primarily because undergraduates (relative to already graduated workers) are more concerned with low-price strategies. Nevertheless, not all undergraduates are sensitive to prices. Moreover, the empirical sample of this study comes from Taiwan, which is a developed country; thus, the sample may have lower price sensitivity. Price sensitivity could be related to consumers’ personalities and backgrounds (e.g., gender, age, family income, personal income) as well as to product categories. Under the condition of high price sensitivity, consumers care more about the price message; hence, the relationship between refund size and the believability of the lowest price may be stronger. Thus, this study suggests that future researchers could further investigate this topic with undergraduates exhibiting different levels of price sensitivity.

The use of a retailer’s refund strategy in the lowest-price guarantee strategy is typically accompanied with restrictions or conditions, which are not explored by this study. Although the current study neglects the interaction between refund size and refund restrictions or conditions, this interaction deserves exploration in the future because consumers may care about the restrictions or conditions associated with receiving a refund, and these restrictions or conditions may influence the effects of refund size.
This study demonstrates that for less reputable retailers, refund size negatively influences the believability of the lowest price; thus, consumers typically do not believe in less reputable retailers’ high refund. However, Wirtz et al. (2000) suggested that clear and detailed guarantee clauses proposed by retailers would reduce consumers’ perceived risk. Thus, this study suggests that future researchers attempt to determine whether the effect of high refund is improved when less reputable retailers combine high refund with clear and detailed guarantee clauses.

REFERENCES


