The Influence of Resale Reference Prices on Consumer Purchase Decisions

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ABSTRACT

The Internet has brought about revolution in purchasing; online trading has become very popular. This paper discusses how resale reference price (RRP) affects consumer purchase decisions as related to different levels of risk factors, purchases situations of varying levels of risk factors, and different product and seller choice sets. The internal and external reference prices are also examined. Finally, the prevalence of RRP in the purchase decision process of various categories of consumers were considered.

INTRODUCTION

In any purchasing decision the consumer must have always evaluated the price of the product or service in questions; this means that price is a very integral part. Price becomes very sensitive to the consumer since it affects his income and the quantity he or she gets during purchase (Putler, 1992). It is therefore very important to a firm to decide the price that suits the market since the revenue will depend on how much the consumers purchase (Krishnan, 1998). In instances where prices of products are set the consumer registers the price and attempts to change it may encounter heavy resistance which may be translated to low sales.

In view of the above facts for any product to position it in the market the price must be reviewed regularly to suit the market and always remain competitive. Price can be explained as the resources given up divided by the goods received (Keller, 2007). The price set must meet the cost of production so that the firm makes profit; however, for the consumer any price that seems to exploit them is resisted (Milasinovic, 2008). This means that customers always have a price in mind that they refer to when they want to purchase any item. A study has shown that external price awareness not only changes consumer’s reference price but also the ultimate consumer choice (Caputo, Lusk, & Nayga, 2018). Any much deviation from that price is suspicious to the customer and may make him to buy more, buy less, or avoid buying.

This paper tackles the issue of resale reference price (RRP) and how they affect the consumer purchase decisions; it describes the internal and external reference prices and their application to the consumer. The importance of the RRP to the marketers has been discussed so as to present the prevalence of RRP in the purchase decision process of various categories of consumers; the propensity of RRP to affect purchase likelihoods for products with varying levels of risk factors; the propensity of RRP to affect purchase likelihoods for purchases situations of varying levels of risk factors, and the propensity of RRP to affect purchase decisions across product and seller choice sets.

Consumer Behavior
If the prices are less than what he or she expects then the consumer may result to buying more; if the prices are more than expected they are likely to buy less or avoid buying all the same. This price that the customer uses to refer to when buying products is known as the reference price. This price to the consumer sets the upper limits to the products which must be commensurate to the price perceived. The value and quality of the products being purchased also makes the customer decide on the price (Capozzi, 2017).

In any case changing the reference price is expected but a big change from the same leaves the customer dissatisfied. For any price stated for any product the buyer must be willing to pay so as to purchase and this is mostly determined by the reference price. As stated by Ariely, et al. (2003) “Consumers attach a reference price to each commodity. Different consumers or the same consumer at different times need not attach the same reference price to the same commodity.”

According to Chu, & Liao, 2007 in the article “Exploring Consumer Resale Behavior in C2C Online Auctions” there are four different types of consumer online reselling they include; resale of extra purchase, unintentional resale, resale after temporary ownership and disposition. Whichever sale is being undertaken during the online trading the RRP is likely to influence the amount of purchase being done by the consumers. Apart from price, the purchase of products is likely to be influenced by the product value, consumer satisfaction, and product quality.

The internet has brought about revolution in purchasing; online trading has become very widespread. The resale of products has been developed where; products from manufacturers or second-hand products are being traded online and other places (Muller & Ruffieux, 2011). This has necessitated the need to set a RRP that many customers have to determine the price at which they are to buy other resale products.

The internet has made it possible for people to sell products from consumer to consumer (C2C) through websites which has made sales very dynamic. Goods have therefore become liquid assets even when bought by other consumers in view of the fact that they can be resold later (Hunold & Muthers, 2010). Customers have on the other hand remained very cautious not to be exploited with high prices through always having a reference price that guides them in the products they are to purchase.

**Changing Price**

For the producer the price still remains an important factor in the business; he has therefore to target different ways to change the price to suit the market and consequently make profits. Firstly, there can be reduction or increase of the ‘sticker price’ where the quoted price of the product is changed to suit the necessary conditions. Secondly there can be an increase or decrease in the quantity of the product (Taylor, 1996). This is common especially when an increase in price is expected to be faced by maximum resistance by consumers.

Quality can also be altered to suit the price especially if the production costs are not being met by the price in the market. The producer may also change the terms of sale, to reduce the production costs and leave the price constant. The consumer must remain aware of all these tactics especially when buying products that are new in the market (Taylor, 1996). For resale products these tactics also apply and thus the reference price will be very helpful to determine the best price to purchase a product.

**Consumer Reference Price**

Most times when the consumer wants a product he or she tries to establish the market price. This will be based on different factors such as price they purchased before or a perception of fairness in the
prices stated. The reference prices are two types; i.e. internal and external reference prices. The internal reference prices are the expectations of prices majorly based on the experience of the consumer. They may be the sticker prices getting lower than the typical prices that are experienced by customers (Kotler, 1994). They may also be frequent updated prices where it may be difficult to have them change dramatically. The prices are also confined to a small range of change for different prices. The consumer at most times will have a clue of the expected price of the product since they have purchased them regularly or have observed others buy them.

External reference prices are generally those supplied by the marketers to sway the customers to more purchases. They may be promotional or drastic price changes that the customer may consider unbelievable. If the prices continue to dominate the markets they then affect the internal reference prices (Petrof, 1997). The marketers given an indication of how much a product should cost. Manufacturers can have suggested retail prices which will influence the consumer to know the best bargain in buying the products. In all these instances, the reference point protects the consumers from exploitation in terms of price since they have an idea of the rough estimates.

Consumer resale behavior has also become common in that they have learnt to resell merchandise that is unwanted through consumer to consumer (C2C) transactions. The online trading (e-commerce) of these merchandises have seen many consumers trading online; this has also brought about different consumer resale behavior such as reference prices. According to Chu (2010) in the article “A Conceptual Model of Consumer Pricing for Online Resale”, market reference price, product depreciation, brand equity, and product satisfaction all affect resale pricing.

Online C2C auctions have made it possible for customers to access products more easily and at varied prices since they can visit the many websites offering the products and compare the prices, quality and terms of sales. Consumer online resale is the sale of products to consumers mainly to be used or consumed for self use. They may be of three types’ i.e. professional resellers, consumer resellers, and mixed-role resellers; whichever type is involved the price is a major consideration in purchasing the product (Chu & Liao, 2007). Online buyers always approach the market with a resale reference price that will initially affect their decision to purchase. This does not mean that they will make a rational decision but they base their decision on their expectations which must be near or exactly as the resale reference price.

**THEORIES ARE USED IN REFERENCE PRICE RESEARCH**

According to Gurumurthy *et al.* (1989) the theory of perception and judgment is used at most times in the determination of the price and promotion response model. The model is subsequently calibrated on scanner panel information available for a product. The adaptation level and assimilation contrast theories are also used to indicate the reference price of a specific region where customers are characterized by similar ideas. Prospect theory is used to indicate an asymmetric reaction to changes in price. The theory that predicts negative promotional frequency effects caused by product change is the attribution theory which all affects the reference price of a product in the market.

**The Prevalence of RRP in The Purchase Decision Process of Various Categories of Consumers**

As stated earlier the price is very sensitive to the consumer, it determines whether he or she buys the products or avoids it. It therefore means that each consumer has a different RRP for every product basing on his experience or external influence (Hunold & Muthers, 2010). On the other hand, there are
various categories of consumers, there are those with different levels of income whereas there are those driven by personal attitudes and attributes in the purchasing decision.

The consumer has various factors when purchasing the products; these include income, preference taste, and needs that are personal. In view of the above fact the purchasing decision also varies with what the customer personally wants and how much he or she has budgeted to spend. The various categories of customers are therefore effective in assessing the spending behavior of consumers by marketers and economists. According to Capozzi, 2017, in the article “Types of Consumers in Economics” the economists have categorized the consumers into four categories which are the Discretionary Spending Consumers, the Luxury Goods Consumer, the Inferior Goods Consumer, and the Businesses and Corporations. Each of these consumers has his or her own way of spending and most importantly a specific range of RRP which will in turn influence the purchasing behavior (Paden & Roxanne, 2005).

The discretionary spending consumers have a high spending rate; they are very flexible in their purchasing decision in that they may know the RRP but still spend or purchase the products. These consumers are mainly composed of consumers who do not pay bills such as teenagers and generally have the money to spoil themselves with any products they like. They normally spend on non-essential products such as games, snacks, and electronics which they believe to be a need. The purchasing decision of this group of consumers may not be much affected by the RRP since they may have the extra cash to spend on the products (Elzinga & Mills, 2008; Hunold & Muthers, 2010). However, they normally perform thorough research from friends and colleagues before they purchase the product. In essence, they have a rough idea of the reference price of the product they are willing to buy since they purchase products which they have heard or seen from friends or other sources.

In this respect, they normally purchase products only when they know they have the best bargains that are based on the RRP. Nevertheless, the purchasing power of this group may vary depending on the income of the providers i.e. either the guardian or parent (Elzinga & Mills, 2008). They, however, remain flexible with the price of the product since they prefer having the product at any cost due to peer influence.

The luxury goods consumers normally purchase luxury products which are not basic needs. Their basic needs such as food, shelter and clothing are already met and they focus on products to make their lives more comfortable. Their income level is high and thus their purchasing power is also high. The luxury products include fancy cars, televisions, and flashy watches, among others. This category already has had enough to spend and therefore their purchasing decisions are not much affected by price (Ariely, et al. 2003). For them money is not the problem but how to spend the money.

They are therefore less likely to have a RRP in mind but focus on acquiring the product at whatever cost. They are likely not to bargain much from the sticker price and will just request for the terms of sales that are more convenient to them. Quality to this category is very crucial in that they tend to purchase any quality product at the stated price and avoid bargains. However, some may also have a RRP which they have from friend or colleagues or previous purchases (Mazumdar, et al. 2005). The more the income the less the decision of purchase is likely to be influenced by the reference point for these consumers whichever product they are purchasing be it basic or luxurious.

The inferior goods consumers are those who have a low income. They normally purchase inferior goods which are alternatives to expensive products. Consumers in this category have the same purchasing behavior in that they pay close attention to price and always have a RRP which they refer to when purchasing (Vergé, 2008). Their purchasing decision is therefore greatly affected by the RRP in that it gives the higher limits of the product they are to purchase. The income level of this category can be said to be the main contributor to the purchasing behavior.
The consumers will spend time identifying the ideal reference price for a product either from internal or external sources which will in turn influence the purchasing price of the product in question. Since they have a low-income level they tend to maximize on the having the largest quality for their money (Kalyanaram & Winer, 1995). They use price as a main guide to making a purchasing decision. They search around all websites for the best bargains until they find the price close to the RRP. For inferior goods, they are purchased more when income is low and purchased less when the income is high. In this case prices that are higher than the RRP may make the consumer avoid the product or if the product is a necessity the consumer purchases fewer products.

Businesses and corporations form a huge base of consumers of different products; however, these at most times have a budget in which they follow. They normally avoid spending extra expenses or buying products that are over priced and are above the budgeted amount. Most businesses and corporations have a set client for their supplies where they have agreed prices (Monroe, 2003). Company’s budgets are hard to adjust though they set the approximates on RRP; this means that the purchasing decisions are very stringent on the budget.

If the prices go higher than the expected threshold the businesses and corporations may adjust but this has a negative impact on the profits. Any increase in price of supplies increase the costs of production and this translates to lower profits. The purchasing decision for this category is therefore much affected by the RRP since it affects the outcome and performance of the consumer (Briesch, et al. 1997). Many business and corporations visit online websites so that they can establish new links that may have lower prices since they will contribute to the profits if the cost of production is lowered. There is therefore a tendency for various businesses to negotiate so as to get an appropriate price that will be convenient to them otherwise they search for the best bidder and award supply tenders.

The Propensity of RRP to Affect Purchase Likelihoods for Products With Varying Levels of Risk Factors

For consumers, the RRP sets a basis on the best bargain they can get for the different products they need. They therefore have a tendency to investigate from all sources either external or internal so that they can establish how much they can spend. Products in the markets vary in terms of risk level and therefore for every product the consumer must be assured that it is safe to purchase (Hunold & Muthers, 2010). Finding the price close to the RRP to the consumer is a confidence boost since they consider the selling party as honest and non-exploitative.

The consumer is however very cautious in buying products that have a higher risk; goods that are either prone to spoilage, expiry or destruction when bought are carefully scrutinized by the consumer before they buy them. In the event they are not at the range which the consumer has as the RRP then they may be avoided or bought in lower quantities (Kotler, 1991). Especially when such products are priced much lower than the RRP the consumer becomes suspicious and may have to confirm if the prices are correct before purchasing; some may avoid them completely and assume that they are faulty as the reason behind the lower prices. This lowers the likelihood of purchase of the product since the consumer avoids of buys less. This may be the opposite as opposed with some lower risk products where the consumer may be searching for lower prices.

When the products are priced higher than the RRP is a different case for the products with higher level of risk in that the consumer may buy it rather than avoid it with a view of having high quality; this will increase the likelihoods of purchase for the products. On the other hand, the consumer may avoid it on grounds of higher prices reducing the likelihood of purchase of the products (Paden & Roxanne, 2005). The RRP for that reason clearly affects the likelihoods of purchase for products with varying levels of
risks levels in different ways. The willingness to pay for the products is generally based on the RRP which the consumer has in that the threshold set may change slightly.

The consumer also has to consider the risk involved in buying the product in view of the fact that it must be the same product demanded for. Holding other things constant, the higher the risk level of the product the more the likelihood for the consumer to apply the RRP in the purchase, and the lower the risk level of the product the less the likelihood to observe the RRP thus increases the likelihood of purchase.

The Propensity of RRP to Affect Purchase Likelihoods for Purchases Situations of Varying Levels of Risk Factors

The consumer is faced with different options when purchasing a product; for example, he or she can opt for the product or a substitute. Such decisions influence the likelihood of purchasing since they present other situations that may be less costly or be less risky. The RRP in this case will play a role in the purchasing decision since the consumer may opt for the product that does not deviate much from the RRP. Each purchasing situation also has its risk factors and if the risks are high the customers are more likely to apply the reference price in a view to get the exact product and minimize the risk (Mowen, 1995). On the other hand, if the situation is less risky the customer is less likely to apply the reference price.

In most situations, there are some assumptions that are affected by the reference price; they are that the consumer seeks to maximize the utility based on a given predetermined amount of expenditure in that situation. This brings the concept that any action of a given period does not directly influence the behavior of other situations. Therefore, every situation is a different experience to the customer and the risks involved are different.

Secondly, one assumes that at all situations the consumer is conversant about the product i.e. value and quality and that the quality is independent from the price. This therefore means that the price will only affect the purchase behavior of the consumer through affecting the budget of the consumer through losses or gains in each situation (Zhao & Sharan, 2006). This makes the consumers purchase products more frequently especially when they are familiar with them; they also infrequently purchase products that are not familiar with.

Thirdly, the reference price is the notion of an adjustment level that the product price can raise or fall based primarily on prices that were experience either externally or internally. Therefore, they are predestined before purchase and at most times they are viewed as exogenous when the consumer is purchasing. The RRP therefore will not impact on the constraint of the consumer’s budget but the purchasing behavior.

The Propensity of RRP to Affect Purchase Decisions Across Product and Seller Choice Sets

Online trading presents numerous options for products and sellers for the consumer; C2C e-commerce has made reselling very easy and consumers can opt to either buy from the manufacturer resellers or secondhand products. This means that there are different products and sellers in the market and the buyer has the choice. In making this choice the reference price has an influence in the purchasing decision (Spreng, et al. 1996; Paden & Roxanne, 2005). The range of products available means that the customers’ choice will be more inclined to those that meet his or her expectations. If the products vary much from the expectation he may opt for other products that meet the same need.

There are numerous online sellers and this gives the consumer a choice to observe the various prices before making a choice. The RRP will play an important role in that the customer compares the price that suits the product (Zhao & Sharan, 2006). This will affect the purchasing decision since he can
grade the products estimates with the RRP expected which means he is likely to purchase the product with less variations.

CONCLUSION

The resale reference price plays an important role in the purchasing decision in that the consumer has some confidence in what he or she knows rather than what he gets. Although the RRP does not have an impact on the budget it has a positive impact on the decision made by the consumer in that it is the main base of all purchase decision especially for inferior goods. For all categories of consumers, it has an impact on the purchase process. RRP also has an impact on the purchase likelihoods for products with varying levels of risk factors; the purchase likelihoods for purchases situations of varying levels of risk factors, and the purchase decisions across product and seller choice sets. This means that for marketers studying the reference price of the product they are marketing can make the product position itself in the market through high sales.

REFERENCES


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