

Why consumers fall for 'sales', but companies may be using them too much

Written by The Conversation

When you walk through an Australian mall you are bombarded with signs saying “buy one, get one free” and “70% off”, and shops seem to be perpetually running sales. This is understandable, as the presence of a sale sign, even without a price reduction, can [increase sales](#). But there is such a thing as too much discounting.

[Research shows](#) that discounts become less effective as more products are put on sale. There's also [a limit](#) to how much you can discount a product, as customers have a minimum amount they will pay for something.

How we determine 'good value'

Prices affect consumers [depending on factors](#) such as how often they visit the store, how much they spend, whether they are visiting to buy or browse, and their ability and willingness to retain, process and recall prices.

[Behavioural pricing research](#) shows that consumers hold in their minds an internal reference price that is based on their previous experiences with a brand, competitor brands, or similar products. This internal reference price is central to how we make decisions about what to buy because it is how we determine if prices encountered in the market have changed and whether product offerings are a good value.

Reference prices become particularly important when a higher “regular” price is contrasted with the lower “sale” price. Consumers think something is a “good deal” when their internal reference price is higher than the sale price.

However, the difference between “regular” prices and “sale” prices can only be perceived at a certain point. In order to change behaviour the difference must be greater than what is called a “differential price threshold” – the minimum amount required to [cause a change in perception](#).

To illustrate, it is [unlikely](#) that someone shopping for a shirt priced at \$49.99 will react spectacularly if it were reduced to \$47.49 – a discount of only 5%. But they might if it were

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reduced to \$39.99 – a 20% discount. Thus, providing consumers with more meaningful savings increases purchases.

In this case, a 20% discount is more attractive not only because it is four times larger than 5%, but also because it changes the left-most digit in the price – from a 4 to a 3 (\$49.99 to \$39.99). This provides an important cue for consumers. [Research shows](#) that the left-most digit is very important in price perception – that's why so many prices end in 99 cents.

Discounts can go too far

All consumers have a minimum and maximum price they are willing to pay for a product or service. For instance, a consumer may doubt the quality of a barber service if the price is less than \$10 for a haircut. The same consumer may find the service too expensive if paying \$100 or more.

The closer the price point of a product to their maximum/minimum price thresholds, the lower the consumers' uncertainty about the purchase. [One study](#) showed that when a laptop was discounted by more than 50% there was a decline in willingness to buy.

Increasing the frequency of discounts can also have negative consequences for the brand and retailers' image. Each time a consumer experiences a discount it is added to his/her reference price used for future purchases. The higher the frequency of discounts for a brand, the higher the likelihood that the sale price will become the new reference price, reducing consumers' willingness to buy the product at full price.

Consumers soon learn that if they wait, they will get a better deal. This is why many Australian retailers offer consumers a guarantee of lower prices. For example, Coles' [pricing campaign](#) assures consumers that they do not need to worry about future price increases.

The certainty associated with deals posted weekly gives consumers a sense that prices are not increasing and helps the brand to form a lower price image. Similarly, 7-Eleven has [developed an app](#) that lets consumers "lock in" a fuel price for up to seven days.

The takeaway

As we can see from the research into how prices affect consumers, we love a bargain. But it's not as simple as lowering prices. We analyse products through a number of different lenses, including our preconceived notions about the product, brand and store.

Our internal price comparison system can be inaccurate for infrequent purchases, but it is [decent for products we constantly buy](#). In the end, a deal is a good deal if we pay less than we expected to.

But that doesn't mean companies should go crazy with discounts. This can have long-term impacts on perceptions about the product, brand and store. And that, in turn, has knock-on effects such as reducing the reference price for other products.

Nicolas Pontes does not work for, consult, own shares in or receive funding from any company or organisation that would benefit from this article, and has disclosed no relevant affiliations beyond the academic appointment above.

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