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MULTICHANNEL PRESENCE, BOON OR CURSE?: A COMPARISON IN PRICE, LOYALTY, REGRET, AND DISAPPOINTMENT

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ABSTRACT

Introduction

The conventional notion endorses the multichannel presence of a retailer since online and offline channels complement each other. For instance, many consumers search product features online but prefer to examine it in a store before making the purchase decision ("buy-online, pick-up-in-store" Gallino & Moreno 2014). Despite the common understanding, consumer perceptions on multichannel presence is not always as simple an equation. In our research, we focus on the complexities that may arise from multi-channel presence, especially given emotional responses and how that may adversely affect the retailer.

Theory & Hypotheses

Multichannel presence of a retailer has been argued in favor and advocated by many. Thomas and Sullivan (2005) noted that not every two-channel combination is better than every single channel presence, but adding another channel may help in identifying a more valuable consumer. To explain, the consumer who purchases from the web may not be as valuable as the consumer who purchases from the store, but the consumer who purchases from both is more valuable than someone who purchases just from one of them. However, the preference for online and offline services differ for different products. For example, consumers prefer offline shopping when personal service, instant access, product trial, and exchange avoidance are their priority (e.g.: fashion items). Online, on the other hand, is favored when they look for best prices, compare large selection and have limited time to spare (e.g.: laptop) (Levin, Levin & Heath 2003).

In competitive market, unlike online sellers with a price advantage, offline sellers offer ready availability of merchandise for inspection and purchase but have higher prices due to their operating cost (Grewal et al. 2010). The type of promotions works also differ - loyalty benefits or customized promotions are offered by online stores and competitive promotions are offered by offline stores (Zhang & Wedel 2009). Due to such uniqueness, some retailers choose to effectively charge different prices by channel-specific use of price promotions or through shipping and handling fees. However, differentiated pricing strategy

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across channels can potentially result consumer confusion and resentment. When considering price differentiation across channels, it is important that retailers manage consumer’s emotional reactions, as mixed emotions may sway buying decisions (Penz & Hogg 2011).

In this study we analyze how consumers respond to differential multichannel price promotions. We specifically focus on their feelings of regret and disappointment, since they are known to predict consumer dissatisfaction (Inman, Dyer, and Jia 1997; Taylor 1997). Regret is felt when there is a bad choice (along with expected quality of unchosen option) and is frequently associated with self-blame (Zeelenberg, et al., 2000). Regret is expected to be higher for a high priced product, due to greater degree of involvement (Tsiros & Mittal, 2000). On the other hand, disappointment is the outcome of disconfirmation of expectations and is commonly associated with blaming others or circumstances (Oliver, 1980; Taylor, 1997). Consumer with greater loyalty is likely to have higher expectations due to positive preexisting attitude (Bell, 1985) and is far more susceptible to disappointment due to the expectation-reality gap. Thus we propose,

H0a: When there is price discrepancy, high price products will induce higher regret than low price products.

H0b: When there is price discrepancy, high loyalty consumers will feel higher disappointment than low loyalty consumers.

H1: For high priced product (high regret), high loyalty consumers (high disappointment) will return and reorder the discounted product online

H2: For high priced product (high regret), low loyalty consumers (low disappointment) might either return-reorder from the online channel or switch to a different brand.

H3: For low priced product (low regret), high loyalty consumers (high disappointment) will switch to another brand (blame retailer).

H4: For low priced product (low regret), low loyalty consumers (low disappointment) will retain the product.

Method and Stimulus

An experiment consisting four conditions (2X2 design) is employed by varying the Price (High $100/Low $20) and Loyalty (High, customer of 5 years/Low, New customer). In all the cases one is asked to imagine having purchased from the offline store of the brand and after a few days notice a 25% discount on the same product in their online store. Shipping was free (as Loyalty benefit for High Loyalty consumers and as new customer benefit for Low Loyalty consumers). We then measured their extent of regret (e.g., “I regret the choice made”) and disappointment (e.g., “I will feel disappointed with the brand”; Brehaut, 2003; Zeelenburg et al., 1998) on a 7-point scale (“Strongly agree”=7, “Strongly disagree”=1) and asked their next course of action (keep product/return and reorder from the same brand/return and switch brand/return and not purchase).

Results & Analysis

260 M-Turk respondents participated in the study with n=65 for each condition. In our results, we observe that regret is significantly higher ($p < 0.0001$) for high price situations compared to low price situations, thus confirming our H0a. Disappointment for high loyalty consumers is significantly higher ($p < 0.0001$) than low loyalty consumers, confirming H0b. MANOVA analysis confirm the significant effects of price on regret and that of loyalty on disappointment ($p<0.05$). In high price scenarios that involve high regret, return and reorder is the most popular course of action for the consumers. On the other hand, in case of low price, low regret conditions, majority of participants stick with their purchase irrespective of the loyalty levels.

Among the highly loyal consumers, return and reorder of high price products is the most common course of action, confirming our first hypothesis. For the second hypothesis, where we left the outcome to be decided empirically, we find the same to hold true for low loyalty consumers. Thus, we find that high regret for high price purchases result in return and reorder (MANOVA, $F=2.1$, $p=0.01$). Binary logistic regression analysis further confirms the effects of regret. Although highly loyal consumers for low priced products mostly tend to retain the purchased product, the action of return and switching brand occurs the highest in this case when compared to all other conditions. Binary logistic regression also show significant effects of regret and disappointment on switching action for this scenario, which partially supports our third hypothesis. Lastly, in accordance with the fourth hypothesis, consumers with low loyalty were observed to predominantly stick with their low priced purchase due to low levels of disappointment and regret.

Discussion

Our results show that regret is contingent on the prices of the product (i.e., regret is high for high priced purchase) and plays a key role in driving the decision making process of consumers. High regret in high price situation drives one to take the hassle of returning a product and reordering from the online channel. However, for low price conditions, consumers do not think it is worth the effort and choose to retain their purchase. This implies brands to cater to returning and reordering purchases more when a high priced product is involved. In case where the brand bears the shipping cost, it might result in increased expenses for the brand and losses for their physical store.

Consumers who are highly loyal and hence have higher expectations of a product unsurprisingly show higher disappointment than those with lower levels of loyalty. This also results in higher switching behavior among them. When it comes to low priced products (less regret) we find switching behavior to be the maximum (although not the dominant strategy) compared to all other scenarios. This implies that differential price promotions across channels may result in brands losing their most loyal consumers to their competitors on account of their high levels of disappointment. This may especially be the case for low priced products, where one regrets less (also market competition could be high for low price products).

Thus, this study challenges the conventional notion of multichannel presence is all advantageous since difference in promotion value may culminate in brands losing their loyal consumer to competition or dealing with exchanges which will adversely affect their brand equity. The intrinsic reasons for each decisions can be an area of further research, as well as the replication of this phenomenon in other product categories.

Keywords*:* price, loyalty, regret, multi-channel, retailing

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