

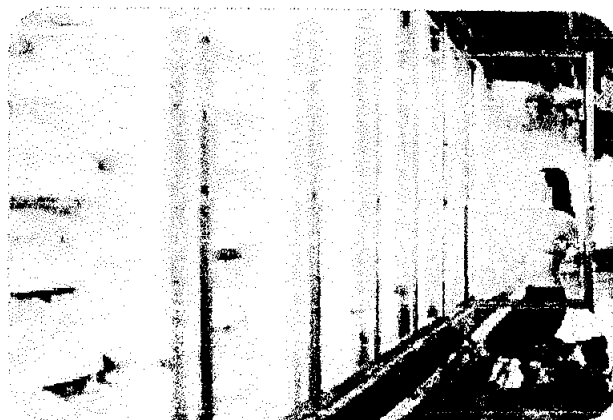
# Every Day Low Price - An Emerging Trend

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Everyday Low Price (EDLP) is a term most suppliers and retailers are very familiar with, particularly those that keep abreast of overseas retailing trends. Companies like Walmart in the US and Asda in the UK have been key exponents of the EDLP strategy for a number of years.

Now the eyes of Asia Pacific are firmly on Australia, with major retailers such as Woolworths (and to a lesser extent Coles) very publicly announcing their commitment to this concept.

In its purest form EDLP is as it sounds: exactly the same low price every time you visit the store. In other words, no more price promotions, which means a re-think on how suppliers attract consumers to their brands and maintain brand equity. EDLP is also associated with EDLC (Everyday Low Cost) which can have positive benefits if joint supplier/retailer cost-saving initiatives can be identified, but it can also create further challenges if EDLC manifests itself in areas such as range rationalisation.



Other support mechanics such as extra catalogue or display support can help circumvent the issue in the short-term, but longer-term the danger is that EDLP becomes a zero sum game. Even supply chain benefits are not always immediately recognisable, not least because competitors' promotions that are still occurring in transition phases will still have a variable effect on demand planning, as well as the ongoing challenges of forecasting demand across a variety of retailers with different regular pricing and hi-lo promotional expectations.

## What are the Key Benefits Attracting Retailers to EDLP?

In essence there are two:

1. Supply chain benefits related to improved demand planning, better inventory management, reduced out of stocks and reduction in business complexity.
2. Price leadership: building consumer confidence that your store will consistently provide the best value. Not necessarily on every item sold, but certainly on the total basket.

In theory, it sounds sensible, yet there are a number of inherent risks that need to be managed extremely carefully by suppliers and retailers if these benefits are to be realised. For example, the absence of promotions removes some of the excitement from the shopping occasion, particularly if you are someone who thrives on finding a bargain. 'Promotion junkies', as they are known in ACNielsen terminology, represent 29% of Australian consumers and suppliers and retailers could alienate them at their peril.

Promotions are not only important from a consumer perspective, they are also necessary from a category consumption perspective in many instances. Impulse categories (eg snack foods, confectionery, carbonated soft drinks) have long relied on promotions to stimulate incremental category purchase and consumption, and careful thought needs to be given to potential category contraction in a pure EDLP environment.

Research is the key to determining the most suitable brands for EDLP

To effectively manage tactics and strategy in an EDLP environment, research is essential. Research is the key to identifying the risks from a category perspective, assessing the profitability of different EDLP price points, and determining the most suitable brands for EDLP. Being in possession of the facts and insights upfront maximises the chances of making the decisions that will still allow brands and categories to thrive in this new era, and it is for this reason that ACNielsen has developed a wide range of EDLP-related research and consultancy tools that are being utilised by a number of FMCG suppliers – such tools include syndicated studies (eg "EDLP – how will it impact your brands?"), promotional and EDLP price modelling, consumer profiling, building EDLP volume/profit simulators and conducting risk analysis.

One thing is certain: EDLP is here to stay in Australia. The ultimate success of this initiative will depend on open communication and co-operation between retailers and suppliers, backed by hard fact-based research and analysis to ensure the right decisions are made.

## Every Day Low Pricing

Every Day Low Pricing, or EDLP, is a pricing strategy that has been a remarkable success for some manufacturers and retailers (Wal-Mart, for example) and a disaster for others (most notably, Sears). Still, despite some rather high-profile failures, the strategy attracts attention among all types of marketers.

The recent *Harrison Report: Pricing Practices in Manufacturing* indicates that 27 per cent of consumer non-durable manufacturers and 23 per cent of consumer durable manufacturers have adopted an Every Day Low Pricing strategy. While less popular in business-to-business markets (only some 10 per cent of respondents to our survey indicated they were using EDLP), it is still a pricing strategy that has been successfully implemented in those markets as well.

While there is clearly a substantial risk for companies that embark on an EDLP strategy, there is also the potential for significant rewards. For companies considering EDLP then, the key question is what conditions are most critical for successful implementation of the strategy. To answer this question we need to first look at the strategy in terms of what it is intended to do.

### How it works

EDLP is essentially a low-price strategy that is designed to enhance the competitive position of the supplier. It can be used for both branded and unbranded products and is based on the following basic premises:

- A consistent, competitive price will lead to an even demand for products
- Inventory and other logistical costs will drop because of better management of product flows.
- Promotional costs and other forms of trade spending will be reduced.
- The cost advantages of steady demand and better inventory management will lead to even lower prices.

One of the advantages of using EDLP is that it often leads to more consistent or predictable demand. As a result, suppliers or retailers are able to more effectively control and forecast production, inventory costs, and shipping costs. This stabilization of demand results when customers no longer wait for regularly occurring 'price deals' to stock up on a product. Since such deals are replaced by a single, no-deal low price, there is no advantage to customers to postpone a purchase

**Successful EDLP strategies tend to generate large volume sales that allow companies to cut costs and pass these savings along to customers. At the same time, retailers or manufacturers are able to leverage their own buying power to reduce their purchase price. These savings, as well, are then passed along to customers.**

Although it is not necessarily an intrinsic part of the strategy, successful EDLP strategies tend to generate large volume sales that allow companies to cut costs and pass these savings along to customers. At the same time, retailers or manufacturers are able to leverage their own buying power to reduce their purchase price. These savings, as well, are then passed along to customers. EDLP is attractive to some consumer goods manufacturers because of the large amount spent each year on promotional or trade spending.

For these manufacturers an effective EDLP pricing policy may eliminate this expense and can, in some cases, lead to greater profitability. The benefit, however, should be weighed against the alternative of establishing more effective control over trade spending.

#### **Where it works best**

EDLP works best under many of the same conditions that support other low price strategies. Typically, these include:

- Consumer demand is relatively unaffected by large seasonal variations or other timing considerations
- The company is able to sustain a low price competitive position through a cost advantage
- Consumers place little value in waiting for “deals” on merchandise
- Suppliers are willing and able to provide just-in-time delivery
- The company’s size justifies the investment in the information systems required to manage inventory turns precisely

Not all of these factors have to be present, although it does help when most of them are. Purchases that can be delayed or “timed” to coincide with price discounts are often less amenable to an EDLP strategy, while repetitive purchases lend themselves particularly well to this type of pricing.

Consumer disposables, such as toothpaste, soap, or groceries, for example, are typically purchased on a daily, weekly or — at most — a monthly basis. Consequently, consumers have less ability to time the purchase of these goods in order to save money. EDLP works well for these types of products, especially at a

retail level, because it offers consumers a bundle of low prices on a range of goods that they buy on a regular basis.

**Caution advised**

Seasonal products and services such as tourism and snowmobiles, or highly perishable products such as flowers, have a limited shelf life and discrete time periods during which product or services must be moved. In these situations, EDLP may not be the preferred strategy. Similarly EDLP often doesn't make sense where demand is so high that price increases are warranted, or when demand declines to the point that price discounts are needed to reduce inventories. Implementing EDLP for some consumer durables is difficult because consumers can often afford to wait for special deals or incentives to buy these products. Over the years, price sensitive consumers have become used to the fact that these deals will occur and will wait for them patiently. It follows that in order to implement an EDLP strategy in these markets, it becomes necessary to change customer buying behavior and perceptions of pricing. This may require a long period of sustaining prices at one low level before EDLP becomes entrenched in the mind of the consumer.

**Every Day Same Pricing does not equal Every Day Low Pricing**

One of the key elements in the phrase EDLP is the word "low". Some companies have adopted something called "Every Day Same Pricing", which is not the same thing. While Every Day Same Pricing can be an effective strategy, it too has to be chosen with care. As the name implies, Every Day Same Pricing (sometimes called Every Day Fair Pricing) may not be the lowest price strategy. However, for companies with branded products, EDSP can be an effective strategy. It is often used as an alternative to discounting and promotion and, as such, is an effective method for gaining control of promotional or trade spending. It is important to remember that EDSP is not a low priced strategy and, in markets where customers are price sensitive or willing and able to shop for the best deal, an EDSP strategy will often be ineffective.

For more information on how the Harrison Pricing Strategy Group can help you deal with this or other pricing issues contact us at [pricing@harrisonpricing.com](mailto:pricing@harrisonpricing.com).



## Mengintip Strategi "Harga Heboh" Hypermarket

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Pasar modern seperti hypermarket menerapkan strategi Everyday Low Prices (EDLP) yang dikombinasikan dengan strategi leader pricing, multiple unit pricing, price bundling, odd pricing, dan price lining untuk meningkatkan lalulintas konsumen dan penjualan barang pelengkap di dalam toko.

Harga rendah di hypermarket merupakan aplikasi 'Everyday Low Price' (EDLP) yang biasa diaplikasikan peritel dengan biaya operasional rendah dan pelayanan minimum. Strategi EDLP menekankan harga jual normal yang berkisar antara harga normal dan harga promosi ritel pesaing. EDLP berguna memperluas cakupan segmen pasar yang bisa dijangkau dan memungkinkan peritel hypermarket untuk menjangkau konsumen hampir dari seluruh strata sosial yang ada di masyarakat. Strategi ini sangat efektif diaplikasikan di Indonesia, yang mayoritas konsumennya berasal dari kalangan menengah bawah dan umumnya sangay peduli pada harga (price sensitive). Lewat strategi ini, sangatlah wajar jika banyak konsumen pasar tradisional kemudian beralih menjadi pelanggan hypermarket.

Buyer di hypermarket mempergunakan dua metode penetapan harga, yaitu metode biaya dan permintaan. Metode biaya menekankan penyusunan harga jual untuk mencapai tingkat keuntungan tertentu, sedangkan metode permintaan menekankan konsistensi peritel terhadap citra yang ingin dibangun dengan mempertimbangkan tuntutan konsumen. Buyer mengombinasikan kedua metode tersebut sesuai dengan situasi persaingan.

Manfaat kombinasi dua metode tersebut bagi manajemen hypermarket adalah :

1. Membangun image/citra gerai hypermarket sebagai gerai yang menawarkan harga rendah.
2. Memaksimalkan keuntungan pada saat gerai ritel pesaing menawarkan harga jual yang lebih tinggi.

Komponen utama dalam menentukan harga dengan menggunakan metode biaya adalah harga pokok pembelian dan gross margin yang ditetapkan. Sedangkan komponen aplikasi metode permintaan adalah harga jual pesaing di pasaran umum.

### Struktur Penetapan Harga

Memanfaatkan kekuatan tawar menawar yang dimiliki, para buyer ritel bernegosiasi dengan pemasok untuk memperoleh diskon, rabat, insentif, komisi, dan bonus barang untuk setiap pembeliannya. Diskon yang diperoleh buyer tidak terbatas hanya pada diskon reguler sebagaimana pedagang pasar. Didukung kekuatan pembelian yang dimilikinya, buyer memperoleh sejumlah diskon tambahan yang akan menekan harga pokok pembelian.

Alhasil, dengan harga pokok pembelian yang rendah, mampu memberikan keleluasaan kepada buyer untuk menyusun harga jual sesuai dengan tingkat keuntungan yang diinginkan dan melakukan penyesuaian terhadap harga jual pesaing sebagai parameter permintaan pasar. Ini juga terkait dengan tingkat keuntungan yang ditetapkan jajaran top manajemen perusahaan ritel yang disesuaikan dengan tingkat pengembalian investasi yang diinginkan. Untuk mencapai tingkat keuntungan tertentu, buyer akan menggunakan rasio tingkat perputaran barang sebagai salah satu parameter dalam menyusun harga jual. Rasio perputaran barang menentukan besarnya nilai investasi yang harus dikeluarkan perusahaan ritel dalam bentuk persediaan untuk mencapai tingkat penjualan tertentu. Semakin tinggi nilai rasio perputaran suatu item produk, semakin cepat arus keluar-masuk produk tersebut di dalam gerai. Kondisi ini membuat investasi yang dikeluarkan perusahaan untuk produk tersebut dapat ditekan serendah mungkin.

Persentase gross margin yang rendah akan diterapkan buyer untuk produk yang memiliki karakter tingkat perputaran cepat dengan investasi persediaan rendah. Demikian pula sebaliknya. Besarnya persentase gross margin yang diterapkan pada setiap kategori produk berbeda satu sama lain. Persentase gross margin yang relatif rendah biasanya diterapkan buyer terhadap produk yang memiliki karakter brand image kuat, tingkat perputaran yang cepat, serta shrinkage rendah. Sedangkan persentase gross margin yang relatif tinggi biasanya diterapkan buyer terhadap produk dengan karakter sebaliknya atau produk yang diolah sendiri di dalam gerai. Persentase gross margin tertinggi diterapkan buyer untuk kategori produk bakery dan makanan siap santap (ready to eat), yaitu produk yang diolah sendiri di dalam gerai. Persentase gross margin untuk kedua kategori produk tersebut berkisar antara 30 – 70%.

Meningkatnya suhu persaingan bisnis ritel beberapa tahun terakhir, telah menimbulkan perubahan karakter terhadap produk pada kategori alat-alat elektronik (appliances). Jika pada dekade sebelumnya buyer menetapkan persentase gross margin yang relatif tinggi untuk kategori produk ini (berkisar 20 – 35%), namun dengan kondisi persaingan saat ini dan berubahnya karakter kategori produk ini yang semula 'slow-moderate moving' menjadi kategori produk 'moderate-fast moving', memaksa manajemen hypermarket untuk menetapkan persentase gross margin yang lebih rendah dari sebelumnya dengan kisaran 8 – 25%. Parameter terakhir buyer dalam menyusun harga jual adalah harga jual di pasaran umum dan harga jual gerai ritel pesaing. Ketika buyer memperhitungkan biaya yang dikeluarkan untuk menjual produk tersebut beserta target gross margin yang telah ditetapkan oleh top manajemen, buyer akan memperhitungkan tingkat harga jual pesaing sebagai salah satu parameter permintaan pasar. Hal inilah yang merupakan dasar digunakannya metode berorientasi permintaan.

#### Strategi "Harga Heboh" di Hypermarket

"Harga Heboh" merupakan implementasi program promosi penjualan yang menekankan harga jual sangat rendah terhadap item promosi. 'Harga heboh' merupakan strategi penetapan harga yang umum dikenal sebagai 'Leader Pricing' yang didefinisikan sebagai harga yang bertujuan memancing konsumen untuk mendatangi gerai ritel dan meningkatkan pembelian tanpa rencana. 'Harga Heboh' bertujuan meningkatkan lalulintas konsumen dan mendorong penjualan barang pelengkap. Harga tersebut sangat fantastis bagi konsumen bahkan bagi pedagang pasar karena biasanya lebih rendah dari harga beli bersih yang diperolehnya dari vendor.

Ketika konsumen tertarik dengan harga item target yang sangat fantastis dan mengunjungi gerai ritel, konsumen akan dipancing untuk membeli produk lain yang tersedia di dalam gerai. Semakin banyak produk lain yang dibeli tanpa direncanakan sebelumnya oleh konsumen, maka program promosi yang dilancarkan manajemen ritel melalui 'Harga Heboh' berhasil mencapai tujuannya. Istilah yang digunakan manajemen

pasar modern dalam 'Leader Pricing' berbeda-beda. Carrefour menggunakan 'Harga Heboh', Giant 'Murah Abis', Hypermart 'Cek Harga', Yogya 'Harga Heran' dan lain-lain. Walaupun istilah yang digunakan berbeda pada dasarnya memiliki tujuan yang sama. Program promosi ritel memiliki sasaran jangka pendek dan jangka panjang. Sasaran jangka pendek dari program promosi ritel adalah bertujuan meningkatkan lalu lintas konsumen untuk meningkatkan penjualan dan lebih ditujukan sebagai usaha pencapaian kinerja operasional dalam suatu periode waktu tertentu. Sasaran jangka panjang tentunya adalah untuk membangun image gerai ritel di benak konsumen agar berbeda dengan pesaingnya.

Dengan memosisikan diri sebagai peritel yang menawarkan harga rendah, hypermarket berusaha membangun image mereka sejalan dengan 'Positioning Market' melalui penawaran harga rendah secara konsisten. Melalui program promosi berkala, hypermarket berusaha menawarkan harga yang jauh di bawah harga pasaran umum untuk membangun loyalitas konsumen. Walaupun demikian serendah apapun harga promosi hypermarket, buyer berusaha menetapkan harga jual mereka di atas harga pokok pembelian untuk memperoleh sejumlah keuntungan.

Fenomena hypermarket menjual produk di bawah harga pokok pembelian biasanya justru terjadi pada item non promosi. Ketika gerai pesaing menetapkan harga lebih rendah manajemen hypermarket melakukan penyesuaian harga jual harga pesaing untuk item produk yang sama. Tindakan ini dilakukan untuk mengantisipasi kondisi persaingan yang akan merusak image gerai mereka di mata konsumen yang terbatas hanya untuk item merupakan target konsumen. Di luar produk tersebut manajemen hypermarket cenderung untuk mengabaikan perbedaan harga jual mereka dengan gerai pesaing.

Untuk mendapatkan efek psikologis yang dramatis, buyer seringkali memanipulasi harga promosi dengan melakukan konversi terhadap unit satuan produk. Sebagai contoh, dengan menyediakan ayam utuh yang memiliki bobot rata-rata 0.8kg/ekor buyer mengkonversi unit satuan yang semula 'kilogram' menjadi 'ekor'. Hasil dari cara ini, efek psikologisnya terhadap konsumen akan lebih dramatis dibandingkan dengan menawarkan harga per kg. Program promosi yang dikembangkan manajemen hypermarket tidak semata dilakukan untuk kepentingan manajemen hypermarket. Berbagai pihak yang terlibat didalam program promosi turut merasakan manfaat dari pelaksanaan program promosi tersebut. Manajemen hypermarket memperoleh manfaat langsung dengan meningkatnya penjualan di dalam gerai. Konsumen mendapatkan manfaat langsung dengan memperoleh kebutuhan dengan harga murah. Pemasok memperoleh manfaat dari aktifitas marketing yang dilakukan di dalam gerai untuk meningkatkan penjualan maupun image tentang merk dan produk mereka di mata konsumen.

Dengan manfaat yang akan turut diperoleh pihak vendor, buyer akan bernegosiasi dengan vendor untuk memperoleh sejumlah uang dalam bentuk 'Promotion Fee' sebagai biaya kompensasi atas aktifitas marketing vendor di dalam gerainya ditambah berkurangnya keuntungan yang diperoleh manajemen hypermarket akibat penurunan persentase gross margin yang ditetapkan selama periode promosi. Manajemen hypermarket menggolongkan 'Promotion Fee' yang diperolehnya sebagai pendapatan komersial yang biasa disebut 'Commercial Margin'.

Dari penjelasan yang telah disampaikan dapat diambil suatu kesimpulan bahwa harga rendah yang ditawarkan gerai hypermarket, bahkan pada periode promosi bisa lebih rendah 20 – 50% dari harga pasaran umum bukan karena manajemen hypermarket menerapkan politik dumping dalam menjalankan bisnisnya sebagai mana yang diadukan Asosiasi Seluruh Pedagang Pasar Indonesia (ASPPPI) kepada Komisi Pengawasan Persaingan Usaha (KP-PU). Penetapan harga rendah hanyalah suatu strategi yang



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# Profiling intrinsic deal proneness for HILO and EDLP price promotion strategies

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## Abstract

This study defines deal proneness as an intrinsic propensity towards two kinds of price promotions in retailing: the high-low strategy (HILO) and the every-day-low-price (EDLP) strategy. A scale is developed to identify EDLP, HILO and non-deal prone consumers. In order to gain a deeper insight into the behavioral structure, these deal proneness segments are portrayed by demographic variables, purchasing characteristics, brand preference and store choice. Store choice, in particular, is of interest for retailers to target their price promotion strategies to specific deal proneness segments. Therefore, the following convincing hypothesis is tested in detail: EDLP prone consumers tend to prefer EDLP stores, HILO prone consumers tend to prefer HILO stores.

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**Keywords:** Deal proneness; Price promotion; Store choice

## Introduction

Consumers are heterogeneous in terms of their preferences, attitudes and overt behavior towards price promotions (Dickson and Sawyer, 1990; Lichtenstein et al., 1993). Thus, being able to identify shoppers who react sensitively to a particular type of promotion enables a merchant to use those activities that have the best sales effect among his clientele (Kim et al., 1999). The construct of deal proneness offers a traditional approach to analyze the promotion-related behavior of consumers (Blattberg et al., 1978; Henderson, 1994; Lichtenstein et al., 1995; Montgomery, 1971; Webster, 1985). In this context, Lichtenstein et al. (1990, p. 55) have defined deal proneness as “a general propensity to respond to promotions predominantly because they are in deal form”.

Blattberg and Neslin (1990) reviewed more than a dozen deal proneness studies and summarized indicators to measure how sensitively a consumer responds to price promotions: Such factors are purchase time, brand preference, purchase quantity, category consumption, store choice or search behavior concerning articles being purchased. All these indicators are based on overt

behavior, so that the term *overt deal proneness* seems an appropriate one for measuring the sensitivity towards price promotions. Another body of literature on deal proneness has considered more intrinsic aspects of this concept. Hackleman and Duker (1980) emphasized the inability of deal prone consumers to resist a bargain; Henderson (1994) pointed out the commitment of deal prone individuals to a promotion (e.g. coupons). Lichtenstein et al. (1990) specified deal proneness using the concept of transaction utility and favored a psychological interpretation of this construct. Such an intrinsic conceptualization of deal proneness coincides with recent papers in price research, which have focused on emotional, motivational and affective aspects of product prices in buying behavior (e.g. Chandon et al., 2000; Laroche et al., 2001; O’Neill and Lambert, 2001; Mano and Elliott, 1997; Schindler, 1989).

This study also relates to an intrinsic interpretation of deal proneness and adds to the existing body of deal proneness literature in several ways: First, the concept of deal proneness is transferred to two kinds of price promotion strategies, which apparently conflict in retailing: In the high-low promotion strategy (HILO), temporary price discounts for selected items occur for some days, followed by weeks with normal prices. In the every-day-low-price (EDLP) strategy, the retailer promotes a basket of products with the argument to offer

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attractive low prices which will be constant for a longer period. These prices are lower than normal prices in HILO stores, but not as low as their price discounts (Hoch et al., 1994; Lal and Rao, 1997). Thus, HILO proneness and EDLP proneness define the intrinsic propensity of a consumer to respond to these price promotions.

Based on this conceptualization, a scale is developed to identify a subject as either HILO or EDLP prone, both defining the extreme values of this scale; a consumer who is neither HILO prone nor EDLP prone is considered non-deal prone on this scale. This measurement approach enables us to segment consumers according to their deal proneness. Besides this measurement approach, the study intends to portray the specified deal proneness segments applying demographic variables, purchasing characteristics and brand preference. As well, store choice by HILO and EDLP prone consumers is investigated to test an a priori convincing hypothesis: The EDLP prone segment will prefer EDLP stores, and the HILO prone shoppers HILO stores. This hypothesis implies a self-selection of consumers in store choice with regard to their deal proneness.

The paper is organized as follows: The next section elaborates a theoretical conceptualization of HILO and EDLP proneness and postulates hypotheses which portray HILO and EDLP prone subjects. The third section presents the data collection and specifies the measurement of some explanatory variables. The fourth section includes the empirical operationalization of the HILO and EDLP deal proneness dimensions and segments participants according to their deal proneness. The specified portraying hypotheses are then tested. The paper concludes with several theoretical and managerial implications and describes some of the study's limitations.

## Theoretical framework

### 1. Intrinsic deal proneness for HILO and EDLP strategies

A number of deal proneness studies have emphasized the domain specificity of this concept (Blattberg and Deslin, 1990; Henderson, 1988; Lichtenstein et al., 1997): A consumer may be coupon prone, eagerly planning advertisements for that price cut, or display prone because she pays much attention to in-store displays leading to brand switching or spontaneous purchases. Both types of deal proneness may not coincide. Analogously, Schneider and Currim (1991) have distinguished between active and passive deal proneness in terms of whether the use of a deal requires significant search and processing of information. In a similar sense, Lichtenstein et al. (1995) have differentiated

between price and non-price deal proneness. In line with these studies, it seems plausible to define EDLP and HILO proneness as intrinsic specifications of the deal proneness construct which relate to two common price promotion strategies in retailing.

To extract measurement dimensions for EDLP and HILO proneness, various literatures on price promotions (Bell and Lattin, 1998; Henderson, 1994; Hoch et al., 1994; Lal and Rao, 1997; Mano and Elliott, 1997; Schindler, 1989) were reviewed. From this review, four emotional and motivational dimensions seemed appropriate to specify EDLP and HILO proneness:

*Anxiety at price variability:* This dimension means that a consumer feels uneasy and confused by changing purchase conditions. Therefore, price transparency and stability in a store give her a feeling of security and convey associations of a fair, reliable offer. The EDLP strategy, with its constant low prices over a longer period, lowers the anxiety a consumer may have if prices permanently vary.

*Enjoyment of bargain hunting:* The consumer enjoys looking around for reduced prices (cherry picking) as an activity per se and experiences a sense of accomplishment from saving money if she gets an article at a lower price than it was (will be) a week before (next week). Temporary price reductions in a HILO strategy offer such a playground for a consumer to get such smart shopping feelings.

*Effort minimization:* The consumer's goal is to minimize time and effort in her buying activity. Therefore, she prefers one-stop shopping and is not willing to make a lot of price comparisons to identify an item in a product category that is particularly attractive at present. The EDLP strategy supports this motivation because the fact that there are low prices every day makes it unnecessary to check (estimate) whether the current price is (will be) higher or lower than last (next) week. Since the price of an EDLP-item is lower than normal prices of this item in other stores, the article offers a deal. This shortens shopping time and the effort involved.

*Deal planning:* The consumer is willing to invest time and effort in planning her shopping trips, which may include visiting several stores to collect products at reduced prices. She also accepts longer travel times to visit such stores.

Anxiety at price variability and enjoyment of bargain hunting represent emotional, effort minimization and deal planning motivational dimensions of EDLP and HILO proneness. It seems unlikely that a consumer follows all the emotions and motivations mentioned above with high intensity. Rather, an EDLP prone consumer should have a high level of anxiety about price variability and wants to minimize shopping effort; the levels for the other two dimensions are low. In contrast, the HILO prone consumer is defined as exhibiting high

is of enjoyment of bargain hunting and deal finding, and low levels in the other two dimensions. Non-deal prone consumer shows low intensity in both dimensions and motivations. Using this classification schema, EDLP, HILO and non-deal prone individuals can be specified for both pricing strategies.

#### Portraying hypotheses

In an early study, Webster (1965) claimed to identify deal prone consumer on the basis of his/her demographic, socio-economic, or purchasing characteristics for being able to distinguish this type of consumer from others in the market. Following this claim, the hypotheses specified below should portray EDLP, HILO and non-deal prone consumers to gain a deeper insight into the behavior of these deal proneness segments. The specification of the hypotheses is adapted from traditional deal proneness studies, so the results may help to find general behavioral structures in the deal proneness construct. Four areas were selected for a description: demographic variables, purchasing characteristics, brand preference and store choice.

Empirical studies yield a blurred demographic portrait of deal prone consumers (Ainslie and Rossi, 1998; Blattberg and Neslin, 1990; Kim et al., 1999). As Blattberg et al. (1978) demonstrated, demographics relate only indirectly, if at all, with deal proneness, *because shopping patterns exert a direct influence on deal proneness* (also Ailawadi et al., 2001; Krishna et al., 1991). Nevertheless, demographic profiles of psychological traits are of general interest in marketing because such profiles ease direct marketing activities in these segments. Since literature shows no distinct directional tendency, an exploratory hypothesis is formulated:

Deal prone segments differ in gender, age and household size.

A central characteristic of one person's purchasing is the amount of money spent on the shopping trip. Bell Lattin (1998) analytically demonstrated that shoppers with large baskets of needed products prefer EDLP prices. So this tendency could also hold for intrinsic deal proneness towards EDLP and HILO price promotion strategies.

*EDLP prone consumers have larger shopping baskets than other segments.*

A second variable describing one person's purchasing arises the monetary proportion of price-reduced products in the basket. This measure can also be derived as an indicator of overt deal proneness towards HILO price promotion strategy. HILO prone

consumers feel enjoyment when bargain hunting and *are willing to invest time and effort in planning their shopping trips in search of special offers*, whereas EDLP prone consumers are unwilling to check whether a current price is lower than last (next) week and feel afraid when prices for an article constantly vary. An overlap is, therefore, expected between intrinsic and overt deal proneness, especially for HILO prone consumers:

H3 The shopping basket of HILO prone consumers contains a higher proportion of reduced products than the shopping baskets of other deal proneness segments.

Recent studies have weakened the traditional assumption that deal proneness is strictly negatively related to brand loyalty (Montgomery, 1971; Schneider and Currim, 1991; Webster, 1965). Ailawadi et al. (2001), e.g. found no significant relationship between brand loyalty and in-store promotion usage. Focusing on reinforcement theory, Blattberg and Neslin (1990) postulated that brand loyalty would be highest for medium levels, but lowest for very low or very high levels of deal proneness. McAlister (1986) proposed a taxonomy that included loyal deal prone consumers as one particular segment in the market. Due to today's more promotion-intensive environment, a consumer may remain loyal to some brands by switching between the stores in which her favorite brand is currently being offered at a bargain price. Therefore, the relation between deal proneness and brand loyalty softens.

Preference for well-known brands (e.g. national brands) over items that are less well-known treats brand loyalty in a more general manner: A consumer may be considered loyal if she does not switch from well-known to less well-known brands. Which item among well-known brands a consumer buys, does not matter. In such a broader conceptualization the relation between deal proneness and brand loyalty in terms of brand preference may be stronger. EDLP prone consumers are characterized by a feeling of anxiety about purchasing conditions. This risk-avoiding status probably extends to brand preference, favoring well-known over less well-known items. On the other hand, enjoyment of bargain hunting may not be restricted to national brands, and HILO prone consumers do not dislike less well-known brands per se. So, hypothesis 4 is formulated as follows:

H4 EDLP prone consumers exhibit a stronger preference for well-known brands than HILO prone consumers.

The conceptualization of HILO and EDLP proneness assumes that the price promotion strategies match the specified dimensions differently. A utility maximizing

consumer, therefore, should prefer those stores that offer a promotion strategy which best fits her emotions and motivations. More generally, Shaffer and Zhang (1995) postulated that customers may themselves select stores that run promotions they have a high preference for. Thus, self-selection in store choice may occur among consumers in line with their intrinsic deal proneness.

Such a relation between intrinsic deal proneness and store choice is also supported by image theory: Within this framework, some authors argued that consumers prefer those outlets where store image matches their self-image (Marcus, 1972; Stern et al., 1977). Defining a promotion strategy as part of store image, and deal proneness as part of consumers' self-image, EDLP (HILO) prone individuals should have a higher preference for stores that run an EDLP (HILO) strategy. Finally, Lichtenstein et al. (1990) and Shimp and Kavas (1984) claimed that there is a degree of overlap between intrinsic and overt deal proneness. Thus, the higher preference of an EDLP (HILO) prone consumer for EDLP (HILO) stores would indicate such an overlap. Hypothesis 5 therefore suggests:

EDLP prone consumers tend to prefer EDLP stores, while HILO prone consumers tend to prefer HILO stores.

Hypothesis 5 is of central interest for retailers since it enables them to attract a particular consumer segment by using a particular price promotion strategy. The hypothesis, however, does not specify the causal relations between intrinsic deal proneness and store choice. Assuming that selecting a store is formally similar to selecting a product (Eagle, 1984; Rust and Sinhu, 1995) two possible structures seem plausible: In the first structure, deal proneness directly affects store choice because the fit between a consumer's intrinsic deal proneness and a store's price promotion strategy can be considered a store attribute which adds to additional store choice criteria such as distance from home, store atmosphere, waiting time at the checkout or price level. In the second structure, intrinsic deal proneness influences store choice indirectly by affecting perception of store attributes in such a way that EDLP (HILO) prone consumers perceive EDLP (HILO) stores better than HILO (EDLP) outlets. At present, it does not seem possible to specify in detail which store attributes would be influenced by intrinsic deal proneness. However, since EDLP and HILO proneness refer to promotion strategies, attributes of a store which characterizes price or marketing-related issues (e.g. price image) should be more likely to be affected by intrinsic deal proneness than other store attributes (e.g. the distance from home). These two

possible influence patterns of EDLP and HILO proneness are expressed in the following hypotheses:

- H6a Intrinsic deal proneness represents a direct determinant of store choice.
- H6b Intrinsic deal proneness influences store choice indirectly so that EDLP (HILO) prone consumers perceive marketing-related attributes of EDLP (HILO) stores better than those of HILO (EDLP) stores.

Hypothesis 6a and 6b enrich hypothesis 5, which postulates only a general correspondence between EDLP and HILO proneness and store choice.

### 3. Method

#### 3.1. Data collection

A group of 620 randomly selected shoppers were personally interviewed at the checkouts in two large grocery stores in the city of Greifswald (Northeast Germany) in 2000. The age of the subjects ranged from 16 to 75 years (mean 40.7 years); 67.2% were females. Organizational restrictions made it necessary to use only a subsample of subjects for some topics throughout the questionnaire. The effective sample size will, therefore, be mentioned in the following analyses.

The two selected stores are outlets of two well-known grocery chains in Germany. The outlets differ in their promotion strategy, which was operationalized by the advertising format both stores used in their weekly flyers (also Bell and Latin, 1998). One store could be classified as an EDLP store, because a set of about 100 articles is advertised with slogans like "low prices every day". The second outlet follows a HILO strategy, presenting the reduced and normal prices of approximately 100 items side by side in the flyers. In both stores, the promoted brands belong to frequently purchased food and non-food categories. Although both stores also occasionally use the other promotion format for some products, especially for durables, or advertise products in an unspecified manner, it seems possible to distinguish a predominantly EDLP- and HILO-oriented store for frequently purchased items which dominate shopping in a grocery store.

#### 3.2. Measurement of brand preference, store attributes and store choice

Brand preference in favoring well-known brands over unknown ones was operationalized by four statements using a 5-point agreement/disagreement Likert scale. The items are similar to those reported in Ailawadi et al. (2001) for store brand preference. A subsample of 191



Subjects answered the specific questions. To give subjects a particular decision situation, the questions focused on various products, which comprise a significant portion of a shopping basket. A principal component analysis extracted one factor representing 63.1% of total variance; Cronbach Alpha was 0.701. For further analysis, the factor scores are used.

To measure the perception of the EDLP and the HILO store, 12 attributes were selected, which have been found in the literature to represent determinants of store choice (Arnold et al., 1982, 1996; Eagle, 1984; Moore, 1988; Steenkamp and Wedel, 1991). A subsample of 210 subjects compared the HILO and the EDLP store using a 5-point rating scale on each attribute. The answers were coded for the HILO store, which was the referent in the comparison. In order to gain a greater insight into the structure of these attributes, a principal component analysis was applied, which identified four factors (store attribute dimensions) representing 56.1% of total variance.

*Service:* quality of food; in-store information about products; waiting time at the checkout; friendliness of staff.

*Layout:* store atmosphere, presentation of items; range of assortment.

*Marketing image:* frequency of price promotions; quality of flyers; price level.

*Transaction costs:* distance from home; additional stores in the vicinity of the outlet.

Concerning hypothesis 6b, the perception of marketing image (transaction costs) should be most (least) likely to be influenced by intrinsic deal proneness.

To operationalize store choice, the subject's average monthly visiting frequency to both stores was measured. Then the number of visits to the HILO stores was set in relation to the number of total visits to the HILO and EDLP store. The resulting coefficient is then designated as the (relative) HILO store visiting frequency; it theoretically ranges from 0 to 1. The higher the coefficient, the more frequently a subject visits the HILO store compared to the EDLP store.

The sample was split in half. One sub-sample was applied to purify the items using Cronbach Alpha and item-to-total correlations. These procedures indicated excluding five items from the measurement model because of their low reliability coefficients. Of the remaining 14 items, all item-to-total-correlations exceeded 0.5. These items underwent a confirmatory factor analysis, which was performed in the other subsample using a LISREL software package. Ten of the 14 items concerned the four specified dimensions of intrinsic deal proneness. Appendix A lists the relevant items.

The estimation indicators demonstrated an acceptable, though not very good, model fit. The standardized  $\chi^2$  was 2.13, the GFI 0.94 and the RMR 0.050, all fulfilling thumb rules of LISREL estimations (Bagozzi, 1980). The AGFI at 0.89 was slightly too low. Every factor loading of the four deal proneness dimensions was significant (*t*-values) at  $\alpha < 0.001$  and can be considered substantial (Steenkamp and van Trijp, 1991). Cronbach Alpha, with one exception, reached the threshold level of 0.7, and the average extracted variance was at least 0.5 for each construct (Fornell and Larcker, 1981; see Appendix A). All phi correlations between the factors were less than 1, supporting the discriminant validity of the four deal proneness dimensions (Bagozzi, 1980).

Factor scores for the four intrinsic deal proneness dimensions and the two additional constructs were then calculated by summing up the rating values of the items, weighed by the corresponding factor loadings of the LISREL estimation. The resulting scale values were then transformed to the original range of the underlying items, in which a value of 1 (5) indicates a low (high) level of the particular behavior.

In analyzing the nomological validity of the four intrinsic deal proneness dimensions, the following structures should occur: The construct "awareness of price reductions" correlates higher positively with the HILO than the EDLP dimensions. "Satisfaction with average low price level" should exhibit higher positive correlations with the EDLP than with the HILO constructs. These assumptions are supported (Table 1).

Overall, the various indicators suggest that the measurement model of intrinsic deal proneness need

### Measurement of EDLP and HILO proneness

Thirteen statements were designed to measure the above-mentioned four dimensions of intrinsic deal proneness toward EDLP and HILO price promotion strategies. The questionnaire included two additional constructs (awareness of price reductions; satisfaction with an average low price level), each operationalized by three items, to check the validity of the relevant deal proneness dimensions. Subjects answered the 19 questions using a 5-point agreement/disagreement Likert scale.

Table 1  
Nomological validity (Pearson correlation coefficients)

Intrinsic deal proneness	Awareness of reduced prices	Satisfaction with average low price level
Anxiety	0.099	0.462
Enjoyment of bargain hunting	0.658	0.052
Effort minimizing	-0.385	0.190
Deal planning	0.481	-0.095

*n* = 456.



Table 2  
Deal proneness segments

	Anxiety	Enjoyment of bargain hunting	Effort minimizing	Deal planning	Sample proportion (%)
EDLP prone	4.61	1.57	4.48	2.43	20.4
HILO prone	4.05	4.17	2.39	3.79	19.3
Minimizer	3.17	1.59	4.49	2.19	13.8
Non-deal prone	3.61	3.33	3.52	3.02	46.5
Mean level	3.84	3.15	3.64	2.67	

n = 456.

cannot be rejected, but must be considered tentatively and refined as in need of refinement.

A cluster analysis (Ward's method: squared Euclidian distance) aggregated the individual data to identify segments of deal proneness. A four-cluster solution appeared appropriate, with a sum of squares "within" relative to the total sum of squares of 47.9%. Table 2 shows the deal proneness profile (mean values) of the four segments.

The cluster analysis clearly identifies an EDLP prone segment characterized by high levels of anxiety at price variability and effort minimizing, and low levels of deal enjoyment and deal planning. Approximately one-fifth of the subjects exhibit this profile. There is also a non-deal prone segment with no marked values for any dimension. It should be noted that the majority of subjects (46.5%) belong to this segment. HILO prone consumers are also found: *Their deal proneness profile is exactly the opposite* relation to enjoyment of bargain hunting, effort minimizing and deal planning. Contrary to theoretical consideration, they experience relatively high anxiety at price variability, which is slightly above average, but not as strong as in the EDLP prone segment. The HILO prone shoppers may probably want to protect their intensive cherry picking motivation against being exploited in stores that permanently change prices. Accordingly, they seek transparency and reliable price offers. Finally, there is a segment with consumers who exhibit a very strong tendency towards effort minimizing, whereas other deal prone dimensions are weak. Because they are focused only on the effort of shopping, this segment may be considered an exception within the deal proneness clusters. Analyses of variance exhibit significant mean differences between the segments for all four dimensions ( $\alpha < 0.001$ ). This statistical result confirms the initial assumption that there is a distinction between EDLP, HILO and non-deal prone shoppers.

## Testing the portraying hypotheses

### 1. Demographic variables

Hypothesis 1 postulates in an exploratory manner that the specified intrinsic deal prone segments differ in

Table 3  
Demographic profile

	Gender*		Age**
	Female (%)	Male (%)	Years
EDLP prone	59.1	40.9	41.5 <sup>a</sup> (16.2) <sup>b</sup>
HILO prone	84.1	15.9	41.9 (17.3)
Non-deal prone	69.3	30.7	37.3 (15.9)
Minimizers	58.7	41.3	35.4 (15.5)

n = 456.

\* $\chi^2$ -test with  $\chi^2(3) = 16.58$ ,  $\alpha < 0.01$ .\*\*Analysis of variance with  $F(3,451) = 3.41$ ,  $\alpha < 0.05$ .<sup>a</sup> Mean.<sup>b</sup> Standard deviation.

gender, age and household size. Table 3 supports the hypothesis in terms of statistical significance for gender and age. It should be noted that 67.2% of the entire sample are females, so differences in percentages need to be checked against this level.

The segments of EDLP prone consumers and effort minimizers exhibit a relatively higher proportion of males than HILO and non-deal prone shoppers: Obviously, females tend to be either non-deal or HILO prone. Deal prone segments also differ in average age. The differences, however, are small. In particular, no substantial differences are found between EDLP and HILO prone consumers. Age will not, therefore, help to segment shoppers according to their deal proneness for an EDLP or HILO promotion strategy. No significant difference ( $\alpha > 0.5$ ) was found for household size. In summary, the above results replicate earlier findings, showing that demographic factors are poor predictors of deal proneness.

### 5.2. Purchasing characteristics

Hypothesis 2 relates to the study by Bell and Lattin (1998), postulating that EDLP prone consumers have larger shopping baskets than other segments. Analysis of variance indicated no significant difference between the four segments regarding the average amount of money spent on the shopping trip ( $\alpha > 0.1$ ). Comparing, however, EDLP and HILO prone consumers only, a *t*-test exhibited a significant difference: EDLP prone

ppers spent 98.81 DM on average, HILO prone consumers 81.88 DM on the shopping trip under investigation ( $T(279)=2.06$ ;  $\alpha<0.05$ ). The result, therefore, confirms the findings of Bell and Lattin (1998). The moderate differences in average shopping baskets may be due to the one-shot-measure; average purchase amounts per subject would be more appropriate.

Hypothesis 3 concerns the monetary proportion of reduced products in the basket, implying that the shopping basket of HILO prone consumers entails a higher proportion of reduced products than the shopping basket of other segments. This hypothesis can also be considered an overlap between intrinsic and overt deal proneness for the HILO prone consumers. Since the EDLP store by definition uses no price-reduced offers and empirically offers such items only marginally, only subjects interviewed in the HILO store were applied to test the hypothesis. This test is valid because all deal segments were found in the HILO store (see section 5.4).

An analysis of variance yields a significant difference ( $F(3,304)=7.27$ ,  $\alpha<0.01$ ), supporting hypothesis 3: EDLP prone consumers exhibit a smaller average proportion of reduced products (12.3%) in their shopping baskets than HILO prone consumers, which show the highest proportions (18.5%); non-deal prone consumers and minimizers buy a relatively small average proportion of reduced products (12.9% and 6.0%). This overlap between intrinsic and overt deal proneness may be regarded as a further support for the validity of the intrinsic deal proneness construct.

#### Brand preference

Hypothesis 4 suggests that EDLP prone consumers exhibit a higher preference for well-known brands than HILO prone consumers. Table 4 presents the average brand preference for each deal prone segment.

An analysis of variance confirms that deal prone segments differ significantly in their average brand preference. As postulated, EDLP prone consumers exhibit a higher preference for well-known brands than HILO prone consumers; this is also confirmed by the conservative Scheffé test analyzing only the difference in brand preference between these two deal proneness segments. Hence, hypothesis 4 is supported.

For EDLP prone consumers, the higher brand preference can be considered a reflection of their anxiety at shopping. They want to reduce risk by favoring well-known brands. This also may apply to minimizers, who exhibit an almost identical brand preference as EDLP prone consumers. Minimizers obviously reduce shopping effort by favoring well-known brands which do not entail any quality risk for them and thus avoid elaborate decision processes.

Table 4  
Brand preference

	EDLP prone	HILO prone	Non-deal prone	Minimizer
Brand preference	0.36 <sup>a</sup> (1.05) <sup>b</sup>	-0.66 (0.65)	-0.02 (0.83)	0.32 (1.07)

Analysis of variance with  $F(3,145)=6.12$ ,  $\alpha<0.01$ .

<sup>a</sup>Mean.

<sup>b</sup>Standard deviation.

#### 5.4. Store choice

The analysis of store choice first focuses on hypothesis 5, which postulates a general coincidence between intrinsic deal proneness and store choice in that EDLP (HILO) prone consumers tend to prefer EDLP (HILO) stores. Then, hypotheses 6a and 6b are tested to gain a deeper insight into this relation. Because minimizers differ in their deal proneness structure, they were excluded from further analysis.

Hypothesis 5 is analyzed according to whether the remaining three deal proneness clusters differ in their relative HILO-visiting frequency. Analysis of variance confirms hypothesis 5, and the differences in mean frequency are in the postulated direction (Table 5).

A Scheffé test refines the result in that EDLP prone consumers differ significantly from HILO prone consumers in their lower relative HILO-visiting frequency. Thus, hypothesis 5 can be confirmed, although EDLP prone consumers buy on more than 50% of purchase occasions in the HILO store. There are no remarkable differences between non-deal and HILO prone consumers in their HILO visiting frequency. This slightly contradicts hypothesis 5, because stronger differences between these two segments could be expected a priori.

Hypotheses 6a and 6b can be tested simultaneously by formulating a path model. In this model, the store attributes and the deal proneness represent the independent variables and the HILO visiting frequency the dependent variable. Since the path model bases on correlations, deal proneness has to be rescaled. For this, EDLP proneness was coded as -1, HILO proneness as +1 and non-deal consumers were given the value 0. So, correlation coefficients between deal proneness and HILO store visiting frequency and between deal proneness and store choice attributes can be calculated. To account for the ordinal nature of the above scaled deal proneness, partial polychoric correlation coefficients (Jöreskog and Sörbom, 1996) were used. All other measures were partial Pearson correlation coefficients.

Hypothesis 6a is supported if a significant, positive path coefficient (parameter gamma) between deal proneness and the HILO visiting frequency exists. This indicates that HILO (EDLP) proneness directly increases (decreases) HILO visiting frequency and may be

Table 5  
Mean differences in relative HILO-visiting frequency

	Mean (standard deviation)
EDLP prone	0.525 (0.403)
HILO prone	0.708 (0.349)
Non deal prone	0.681 (0.345)

Analysis of variance with  $F(2,391) = 7.49$ ,  $\alpha < 0.01$ .

Interpreted that HILO (EDLP) prone consumers obviously value the promotion strategy of the HILO (EDLP) store. To test hypothesis 6b the relations between deal proneness and the store choice attributes have to be analyzed. These coefficients phi in the path model should have positive signs indicating that HILO (EDLP) prone consumers perceive attributes of the HILO (EDLP) store better than those of the EDLP (HILO) store.

Because all free parameters in the path model were estimated, the model was saturated with a chi square value of 0 and no degrees of freedom, but significance tests of path coefficients were nevertheless possible. Data of 141 subjects were used. In total, store attributes and deal proneness explain 65% of the HILO store visiting frequency. Looking at parameters gamma, the most important direct determinant for store choice is distance from home ( $\gamma = 0.42$ , standardized solution), followed by quality of food (0.21), price level (0.15) and quality of flyers (0.12); these coefficients gamma are significant at  $\alpha < 0.01$ . Further, store atmosphere (0.11) and additional stores in the vicinity of the outlet (0.11) are at  $\alpha < 0.1$  significant determinants of store choice. Also, deal proneness (0.12), at  $\alpha < 0.01$ , exhibits a significant parameter gamma, supporting hypothesis 6a.

To gain a clearer impression of how strong deal proneness directly affects store choice, a restricted path model was estimated in which the path coefficient between deal proneness and the HILO store visiting frequency was set at 0, yielding one degree of freedom in the estimation. This restricted path model exhibits a chi square value of 5.50. So, the full model, which includes deal proneness as a direct determinant of store choice, significantly ( $\alpha < 0.05$ ) decreases the chi square value indicating that deal proneness is a significant parameter in store choice. Looking, however, at the degree of variance explanation in the restricted path model, the remaining store attributes explain 63% of the HILO store visiting frequency variance. Thus, deal proneness adds an additional explanation of only two percentage points. This result refines the analysis of hypothesis 6a, demonstrating a statistically significant, but marginal direct influence of deal proneness on the choice between the HILO and EDLP store.

Investigating hypothesis 6b, the only at  $\alpha < 0.05$  significant parameter phi between deal proneness and

store choice attributes is that with range of assortment (0.19, standardized solution). HILO (EDLP) prone consumers probably assess the assortment of the HILO (EDLP) store better because a HILO (EDLP) store offers articles with a price promotion which fits their deal proneness. Contrary to hypothesis 6b, there is no significant correlation between deal proneness and the perception of marketing and price-related attributes, such as frequency of price promotions, quality of flyers, or price level. Because only one significant parameter phi was found, hypothesis 6b must be rejected. With respect to hypothesis 6a, deal proneness directly influences choice between the HILO and the EDLP store, although this influence is weak in relation to the aggregated effect of traditional store attributes.

## 6. Discussion and conclusions

This paper adds to literature which links retailers' pricing strategies and consumer behavior. For example, Bell and Lattin (1998) proposed such a link in marketing research. Lichtenstein et al. (1995, 1997) claimed to integrate cognitive and affective aspects in explaining consumers' sensitivity towards promotions. Following on from these ideas, an attempt has been made to operationalize deal proneness intrinsically with respect to EDLP and HILO promotion strategies. Deal proneness was defined in terms of the emotions and motivations a consumer may associate with these pricing policies. With four deal proneness dimensions, a cluster analysis identified four different deal prone segments, validating a distinction between EDLP, HILO and non-deal prone shoppers. Within this segmentation, the group of minimizers can be considered something of an exception.

Analogous to traditional deal proneness studies, the deal prone segments were portrayed by demographic variables, purchasing characteristics, brand preference and store choice. Such information is central for retailers to target their promotion programs to specific consumer segments. The deal prone segments differ slightly in their demographic structure: Among the EDLP prone buyers, there is a higher proportion of males, whereas non-deal or HILO prone shoppers exhibit a higher proportion of females. There are also differences in age, but they seem too small to design a marketing strategy based on such demographic features. Further, EDLP prone consumers exhibit a higher brand preference than HILO prone shoppers. This gives rise to the impression that EDLP shoppers are more averse to risk than others, something that is also reflected in their higher anxiety at price variability. For retailers, this result implies that EDLP programs should use national brands and not private or virtually unknown labels. Taking all analyses together, HILO prone consumers



them to be more similar to non-deal prone consumers than to EDLP consumers.

The choice between the HILO and the EDLP store, operationalized in the relative HILO store visiting frequency, was of central interest in this study because it directly links consumer behavior defined as deal proneness and price-promotion strategies. The hypothesis is that EDLP prone-consumers should prefer EDLP stores and HILO prone consumers HILO stores is statistically supported in this study. A more detailed test exhibited that deal proneness directly affects store choice. This leads to an interpretation that a fit between the store's price promotion strategy may be considered a perceived store attribute, such as distance from home, quality of food or store atmosphere. Although statistically significant, the influence of deal proneness on store choice is weak compared with the bundle of common store attributes. Further, non-deal prone shoppers and HILO prone shoppers did not differ in their HILO store visiting frequency and also EDLP prone consumers buy on more than 50% of purchase occasions in the HILO store. So, the influence of deal proneness on store choice is not strong.

Some reasons may explain this result: First, store attributes such as distance from home or quality of food are much more important determinants for store choice than a fit between a store's price promotion strategy and a consumer's deal proneness. This tendency is presumably enhanced by the habitual store choice most subjects make. Furthermore, price knowledge of most consumers is weak (Dickson and Sawyer, 1990; Estelami et al., 2001): As a result, EDLP products advertised probably appear to some HILO prone shoppers as price reductions, leading them to choose the EDLP store. Also, price reductions in the HILO strategy often focus on a relatively small number of brands, which are often in promotion. This may, therefore, generate a special impression almost every week, appealing to the emotions and motivations of EDLP prone consumers. As a consequence, the management of both stores should differentiate more strongly in the specific promotion strategy they adopt in their advertising if they wish to stimulate self-selection by consumers based on their deal proneness.

The results of this study also apply to the more general discussion in retailing on whether a HILO or an EDLP promotion strategy is more successful. Because the HILO strategy runs the risk of decreasing sales effects and eroding brand images due to the high frequency of price cuts, some authors favor EDLP (e.g. Ortmeyer et al., 1991). Due to the marginal influence of consumer's intrinsic deal proneness for EDLP and HILO promotion on store choice, it does not seem to matter which strategy is used: Both stores, despite following different promotion strategies, attract many consumers in both deal proneness segments. The key

factor for increasing store frequency is to produce a favorable perception of store attributes among customers; the specific promotion strategy, HILO or EDLP, is of minor importance. This statement is supported by the fact that deal proneness did not sufficiently (significantly) influence the perception of marketing image, a relevant factor in store choice.

On the other hand, results show that, with regard to demographics or brand preference, non-deal prone shoppers (to which the majority of subjects belong) are more similar to HILO than to EDLP prone consumers. Also, HILO store visiting frequency by the non-deal prone consumers is not significantly different from that of HILO prone subjects. Furthermore, among HILO prone shoppers there is a higher proportion of females who are the traditional shoppers for grocery products in a family. Therefore, HILO promotion attracts a larger fraction of the market than the EDLP strategy. This conclusion would favor the HILO strategy.

A somewhat surprising result is the high proportion of non-deal prone consumers found in this study. This may be due to the geographic area of the survey, a region where some consumer habits may have persisted from former socialist times, when price promotions were generally unknown. In this context, Henderson (1994) postulated an evolutionary development in consumer behavior towards promotions in which an elaborate deal planning and store switching (cherry picking) exhibit a highly sophisticated strategy for dealing with bargains. This may also hold for HILO and EDLP proneness. So, non-deal prone subjects may change to deal prone consumers, and the influence of deal proneness on store choice will probably increase in the future.

The study has some limitations. First, the measurement fit of the four deal proneness dimensions is not very good, illustrating the need to purify indicators to operationalize the intended constructs. Second, there were only two stores in one city under investigation. Therefore, the results of this study need to be confirmed by further empirical work, and with greater sample sizes, in order to gain empirical generalization.

## Appendix A

Items for measuring the four intrinsic deal proneness dimensions

*Construct (Cronbach Alpha; average extracted variance)*

Items

*Anxiety at price variability (0.706; 0.550)*

I prefer a grocery store with constant prices over a longer period to stores that constantly change their prices.

If a grocery store constantly changes its prices, I lose track of which articles are really attractive in price.



oyment of bargain hunting (0.763; 0.516)  
 enjoy cherry picking in grocery stores.  
 am proud of myself for having saved money if I buy an  
 n at a reduced price.  
 am annoyed at having bought an article at a normal  
 ce if I could have got this item in another store at a  
 uced price.

ort minimizing (0.748; 0.523)  
 prefer to do my shopping quickly, rather than looking  
 stores in which a grocery product I need would be  
 ered at a reduced price.  
 o not take time and effort to inform myself about the  
 ces of particular grocery items in several stores before  
 ng to shop.  
 nd it too elaborate to visit a particular store just  
 ause they offer products I need at a reduced price.

al planning (0.699; 0.500)  
 en going shopping for grocery products, I intend to  
 it several stores to pick up particular items that are  
 uced in price there.  
 ore going shopping, I check the stores in the city to  
 whether there is an outlet that offers a lot of the  
 cery products I need at reduced prices.

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