



Annotated Summary of:

Urbany, Joel E., William O. Bearden, and Dan C. Weilbaker (1988), "The Effect of Plausible and Exaggerated Reference Prices on Consumer Perceptions and Price Search." *Journal of Consumer Research* 15(1): 95–110.

Chapter 6: Multivariate Analysis of Variance

Multivariate Data Analysis, Sixth edition

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This article seeks to empirically test the effect of external reference prices (e.g., advertised prices) on the price perceptions of consumers. Specifically, it addresses whether reference prices that are higher than the consumer's initial highest price estimates will affect (1) perceptions of market prices, (2) perceived offer value and search benefit, and (3) purchase behavior. The independent variable, reference price, involves four manipulations (1) no reference price, to serve as a control; (2) average reference price; (3) above-average reference price; and (4) well above market reference price. The authors offer two hypotheses: one examines the effect of a plausible reference price on consumer perceptions and behaviors, and the other examines the effect of an exaggerated reference price on consumer perceptions and behaviors.

To test their hypotheses, the authors perform two experiments. In experiment one, a four-group MANOVA, the subjects are exposed to a sales price and one of four possible reference prices (none, average, above-average, or a well above market reference price). From the results the authors conclude that perceptions of perceived offer value and estimates of typical prices are influenced by both plausible and exaggerated reference prices. Experiment two replicates and extends the earlier findings in a two-group MANOVA. First, the authors vary sales price along two dimensions: a sales price and a lower-than-expected sales price. One manipulation of reference price is dropped in the second experiment, maintaining the control and exaggerated reference prices (above average and well above market). With the addition of the lower-than-expected sales price, the experiment calls for a 2x3 (sales price by reference price) factorial design. The results support the hypothesis that exaggerated reference prices can increase consumer estimates of prices and perceived offer value, and reduce search benefits. MANOVA, along with univariate ANOVA, enables the authors to test both hypotheses. In sum, the results demonstrate that higher plausible reference prices give the appearance that the offered price is a better value than if no reference price is indicated.
