The Impact of Price Promotions in Markets with Information and Choice Overload

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The UK wine market is characterised by a large amount of product selection, where the heterogeneity of the production is generally due to the high level of product differentiation. There is a general argument in favour of product differentiation, as this can be an useful and effective tool to accommodate the needs of different consumers. This would imply an increase in consumer loyalty towards the product that maximises the utility function. On the other hand, an increasing number of options has been shown to have negative effects on the cognitive ability of consumers, who tend to reduce market participation. This problem is exacerbated when quality is not observable before purchase.

This article tests whether a large portfolio of products is beneficial to consumers. Applying Gupta’s (1988) framework to the wine market, the paper tests what is the main effect of discounting on consumer behaviour. Expectations are that if producers benefit (high fidelisation), discounts would favour a stockpiling behaviour (i.e. purchasing more) in consumers, with a negligible brand-switching effect. On the other hand, a brand-switching might favour consumers and retailers over producers, particularly when costs of information are high, since consumers could engage a trial-and-error strategy that reduces loyalty toward product and producers.

Results show that discounts do not appear to have an impact on market incidence in the case of wine, while playing a determinant role in directing both the choice of segment and quantity purchased, with brand choice accounting for more than 45% of the total effect. From the results presented in this paper, it would appear that while producers and consumers do not necessarily benefit from discounts, retailers increase their revenues due to an increase in trading volumes.