Online Versus Offline Price Expectations of Indian Consumers

***Dr. Rajendra Nargundkar **Dr. S. Manoharan**

ABSTRACT

The issue of online versus offline pricing is very pertinent in India, where e-commerce sites like Flipkart and Amazon are growing rapidly at the expense of some offline stores. This study examines what consumers expect in terms of prices online and offline for a wide variety of goods. The sample of 125 executives was given a questionnaire that fixed an offline product and asked them what price they would pay online for the same. Across a variety of products, consumers were very clear that they would pay less online.

The results have implications for pure-play offline retailers who need to add value to their offerings to remain competitive, and also for the retailers who want to offer multiple channel options to consumers. They have to adopt a pricing strategy which will keep consumer expectations of differential (mostly lower) online prices in mind.

Introduction

India has seen a lot of activity in the e-commerce space in the last five years, with a lot of companies such as Myntra, Jabong, and Flipkart coming in to sell a variety of goods online. Amazon also has entered India and is considered a serious competitor. The convenience of shopping online is, of course, one major driver for consumers to choose an online channel. But the other major driver could be pricing. To verify if that is indeed the case with Indian consumers, the present study sought to get consumers of various products to compare what they would pay offline and online, for the same product.

Literature Review: Online versus Offline Prices

Lo, Hsieh, and Chiu (2014) performed an experiment with 123 subjects, to examine consumer expectations of overhead costs for online and offline retailers. They found that consumers have lower reference prices for online retailers because they thought online retailers' overhead costs were lower than those of store-based retailers.

* Professor, IIM Indore, Rau-Pithampur Road, Indore 453556. INDIA Phone: +91-731-2439564 Email: rajendran@iimidr.ac.in

** Associate Professor, Department of Management Studies and Research Centre, BMS College of Engineering, Bangalore 560019 INDIA Phone: +91-80- 26603961 Email: manoharans.mba@bmsce.ac.in

Chatterjee and Kumar (2016) studied consumer willingness to pay across retail channels (which they defined as Pure-play Online and Omni-channel, for Store-retailers who also sold online) for Home Goods (divided into Functional and Expressive categories), and found that for both functional and expressive products, consumers were willing to spend more on the online channel of the Omni-channel store (physical store that had an online presence) than at pure-play online stores. The pure-play online stores were preferred for non-durable, routine or familiar purchase items, according to them.

Many store retailers are hit by the showrooming phenomenon, where consumers browse in showrooms or physical stores, and then buy products online from other retailers. In most cases, this is due to lower prices online. According to Vogel and Paul (2015), who investigated the effect of price differentiation across channels on a multi-channel retailer, there is a positive effect on consumers in terms of perceived value, but that does not translate into retention. There is a potentially harmful effect on retention due to a perception of unfairness and limited self-determination. This study was done on a mobile communications retailer.

Fassnacht and Unterhuber (2016) found that consumers are not willing to pay higher prices online compared to a retailer's own physical store, as it is perceived as being unfair. Lower online prices were acceptable. Kimpel and Friedrich (2015) describe a case study in a German setting, where a store that went online in response to consumer demand and competition had to tweak its pricing strategy to remain profitable. This was tweaked first to an Everyday Low Pricing strategy from the High-Low strategy and was again repositioned into a Value Differentiator pricing strategy, with an effort to provide multi-channel options for consumers who are now used to this.

Research Gap

Indian-context studies on online and offline pricing are in short supply, and represented a research gap that this paper addresses. India is a huge market with mostly fragmented offline retail stores, which are threatened by online retailers that span many categories of goods. The relevance of this study is to the entire retail industry in India, as it tries to understand consumer expectations of price depending on the nature of the store (online versus offline). It has relevance for pure-play online stores, as well as for omni-channel retailers who use both online and offline channels.

Methodology

The present study focused on consumers' willingness to pay (WTP) a particular price online, and offline, for the same product. Since this comparison would be valid across consumers only when a reference price was provided, they were given a price for a product that they would have to pay in-store (offline) and asked how much they would be willing to pay online for the same product. This was done for a range of products, from shoes to a laptop computer. Thus, the tendency of a consumer to pay less, more or the same was captured across a wide range of eleven different products. This list of products was made after a focus group discussion among students who shopped online (See the Appendix for the instrument containing the list of products). An open-ended question then asked the respondents for the reasons they had selected generally lower/higher/the same prices online.

A sample of 125 respondents (aged 25-40 years) from a series of executive programs conducted at a business school were asked to fill a questionnaire that gave them a reference price (offline) for each product and asked how much they would be willing to pay online for the same product.

The difference in online and offline product price was subjected to a paired samples t- test that captured, for each product, whether this difference was significant at the 95 percent confidence.

Hypothesis

The basic hypothesis of the study was that a consumer would be willing to buy online at a lower price than in a physical, offline store, across all the product categories being studied. The reasons are as cited in earlier studies, that the consumer may have difficulty in verifying the quality of online products, and also, would expect lower prices because he thinks the costs are lower for online retailers.

Results and Discussions

Results of the paired samples t-tests are shown in Table 1. All the t-tests were significant at the 95 percent confidence level. An examination of the means Table 2 indicated that the mean prices were higher for offline as compared to online purchase for all the products. For example, 600 and 436 are the mean price expectations for a shirt offline and the same shirt online. The same trend continued for all other products-uniformly, online prices expected were lower than the offline prices.

Table 1 : Paired Samples t-Test for Online vs Offline Pricing

		Paired differences							
Pair No.	**Product**	**Mean**	**Std. Deviation**	**Std. Error Mean**	**95% Confidence interval of the Difference**	**T**		**df**	**Sig. (2-tailed)**
Pair 1	Shirtof-Shirton	164.00	88.01	7.87237	148.41	179.58	20.832	124.	
Pair 2	Bookof-Bookon	74.40	66.25	5.92605	62.67	86.12	12.555	124	.000
Pair 3	Topof-Topon	143.16	77.88	6.96640	129.37	156.94	20.550	124	.000
Pair 4	Jeansof-Jeanson	265.60	175.10	15.66191	234.60	296.59	16.958	124	.000
Pair 5	Laptopof - Laptopon	4818.40	4622.27	413.42844	4000.10	5636.69	11.655	124	.000
Pair 6	Pantsof-Pantso	317.20	130.77	11.69648	294.04	340.35	27.119	124	.000
Pair 7	Cellof-Cellon	2844.00	1734.86	155.17067	2536.87	3151.12	18.328	124	.000
Pair 8	Watchof-Watchon	195.20	112.77	10.08710	175.23	215.16	19.351	124	.000
Pair 9	Jewelof-Jewelon	525.20	408.95	36.57791	452.80	597.59	14.358	124	.000
Pair 10	Fshoesof - Fshoeson	311.12	183.14	16.38103	278.69	343.54	18.993	124	.000
Pair 11	Sshoesof-Sshoeson	470.00	269.78	24.13002	422.23	517.76	19.478	124	.000

Source: Field data

Table 2 : Mean Values - First Value is offline price, the second value is online price, for the same product.

Pair No.	Product	Mean	N	Std. Deviation	Std. Error Mean
Pair 1	Shirt	600.0000	125	.00000	.00000
	Shirto	436.0000	125	88.01576	7.87237
Pair 2	Book	350.0000	125	.00000	.00000
	Booko	275.6000	125	66.25525	5.92605
Pair 3	Top	550.0000	125	.00000	.00000
	Topo	406.8400	125	77.88675	6.96640
Pair 4	Jeans	1200.0000	125	.00000	.00000
	Jeanso	934.4000	125	175.10550	15.66191
Pair 5	Laptop	30000.000	125	.00000	.00000
	Laptopo	25181.600	125	4622.27049	413.42844
Pair 6	Pants	1400.0000	125	.00000	.00000
	Pantso	1082.8000	125	130.77067	11.69648
Pair 7	Cell	12000.000	125	.00000	.00000
	Cello	9156.0000	125	1734.86078	155.17067
Pair 8	Watch	1000.0000	125	.00000	.00000
	Watcho	804.8000	125	112.77726	10.08710
Pair 9	Jewel	2500.0000	125	.00000	.00000
	Jewelo	1974.8000	125	408.95342	36.57791
Pair 10	Fshoes	1500.0000	125	.00000	.00000
	Fshoeso	1188.8800	125	183.14553	16.38103
Pair 11	Sshoes	2000.0000	125	.00000	.00000
	Sshoeso	1530.0000	125	269.78187	24.13002

Source: Field data

This validated our hypothesis that consumers will be willing to pay less online than offline in a brick-and-mortar store, across various product categories studied, across a range of prices.

Across eleven product categories, the mean value for offline/physical store price is higher than for online, indicating that consumers expect to pay lower prices online. These expectations are a result of two or three major reasons, as we gathered from the open-ended question at the end asking for reasons if they chose lower prices online. From Table 3, we can see that the expected percentage by which online prices were expected to be lower was 16% for laptops, to 27% for shirts. On an average, people expected a 20% discount online.

The major reasons cited were- 1. Costs of online sellers are lower, therefore they should sell at lower prices, 2. Offline products could be examined for quality, whereas online products could not, 3. Online sellers had tough competition among themselves, so they had to sell at lower prices, and 4. It was difficult exchanging goods that were bought online if they proved to be below expected quality.

In general, consumers felt that they had a right to lower prices online for the same goods, or that they were justified in expecting lower prices. These reasons match some of those found by earlier researchers (Fassnacht & Unterhuber, 2016; Lo, Hsieh & Chiu, 2014). product categories, the mean value for offline/physical store price is higher than for online, indicating that consumers expect to pay lower prices online. These expectations are a result of two or three major reasons, as we gathered from the open-ended question at the end asking for reasons if they chose lower prices online. From Table 3, we can see that the expected percentage by which online prices were expected to be lower was 16% for laptops, to 27% for shirts.

Table 3 : Percentage difference between Expected Online and Offline Prices (online are lower)

Product	N	Minimum percent difference	Maximum percent difference	Mean Difference	Std. Deviation
Shirts	125	.00	66.67	27.3333	14.66929
Books	125	.00	71.43	21.2571	18.93007
Tops	125	.00	63.64	26.0291	14.16123
Jeans	125	.00	58.33	22.1333	14.59212
Laptop	125	.00	66.67	16.0613	15.40757
Pants	125	.00	42.86	22.6571	9.34076
Cell	125	.00	58.33	23.7000	14.45717
Watch	125	.00	50.00	19.5200	11.27773
Jewel	125	.00	60.00	21.0080	16.35814
Formal shoes	125	.00	46.67	20.7413	12.20970
Sports shoes	125	.00	50.00	23.5000	13.48909

Source: Field data

Conclusion

What the present study clearly points out is that consumers typically expect, and are willing to pay, lower prices online for the same product compared to what they would pay offline. This has serious implications for the retailers who want to experiment with more than one channel. Omni-channel marketing may be catching on in India, and retailers may have to keep the consumers' price expectations in mind while offering their merchandise online. In the categories studied, we did not find any categories where the consumer was willing to pay more for a physical, offline experience. Considering that retailers have to spend a lot of money to rent physical premises, they may do well to restrict offline outlets to those segments which want the experience and are willing to pay for it. Alternatively, they can use the showrooms for branding, and use online channels for sales.

Limitations and scope for further research

Not all possible categories of goods were studied, but a large number of representative categories were included. Some more durable categories such as furniture or home furnishing may show a different result. Also, as time goes on, we may find that the deep discounts currently offered online may reduce, impacting the choice of channel.

Intentions were studied, not actual behaviour. This could be studied through an experiment, to validate the findings.

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Appendix: The questionnaire used

The following range of products is indicated to have a price when sold in a physical store. Please tell us what you would be willing to pay for the same products online (assume the product remains the same wherever you buy it

S. No.	Item Bought	The price you have to pay in a physical store (Rs.)	The price you would be willing to pay online for the same (Rs.)
1.	A shirt	600	
2.	A book	350	
3.	A dress top	550	
4.	A pair of jeans	1200	
5.	A laptop	30,000	
6.	A pair of trousers	1400	
7.	A mobile phone	12,000	
8.	A watch	1000	
9.	A jewelry item	2500	
10.	A formal pair of shoes	1500	
11.	A sports shoe pair	2000	

12 a. In case you have mostly indicated same prices online and offline, give reasons-

12 b. In case you have mostly indicated lower prices online, give reasons-

12 c. If you have mostly indicated higher prices online, give reasons-