

Price Contrasts in the Wild

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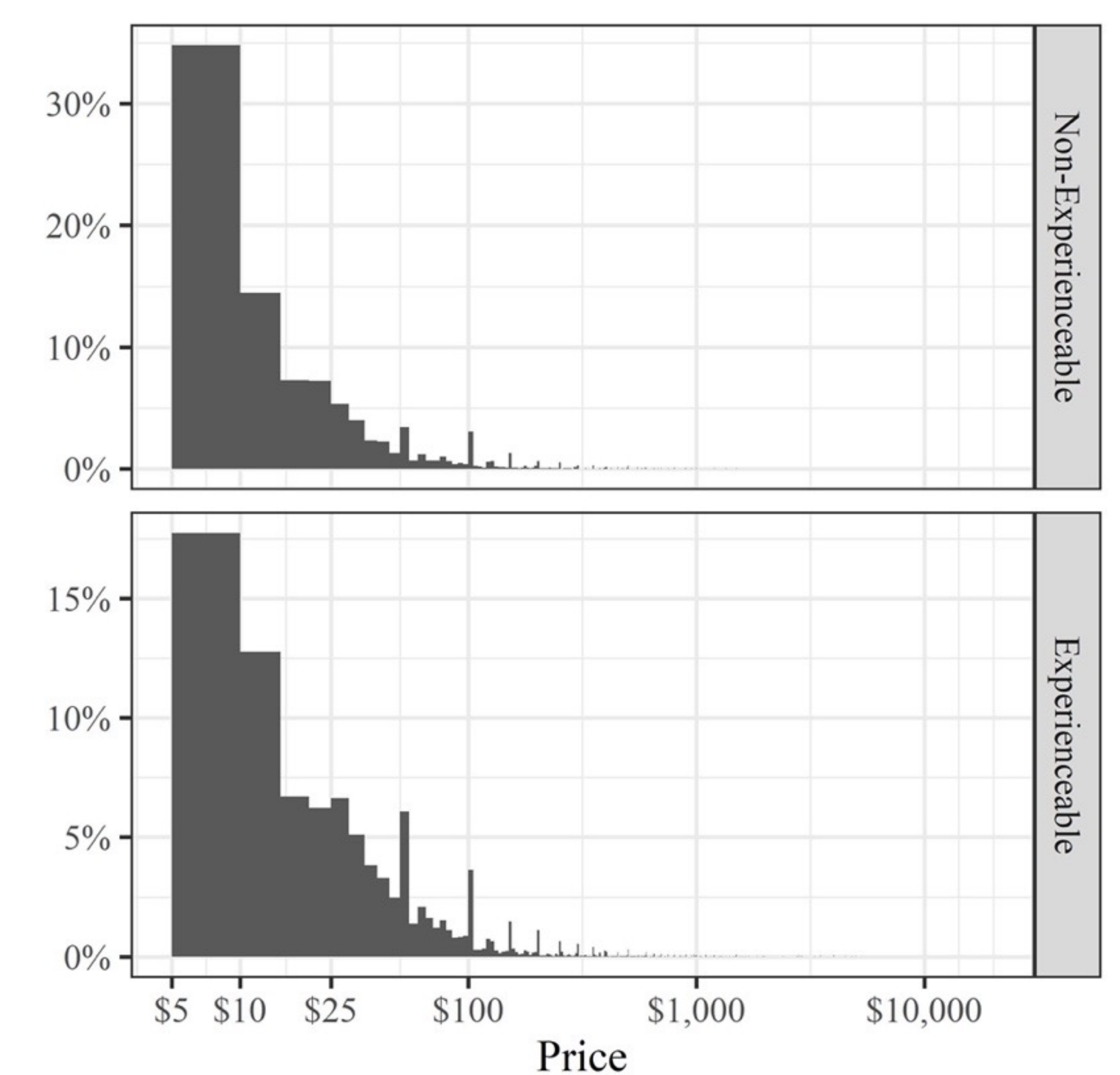
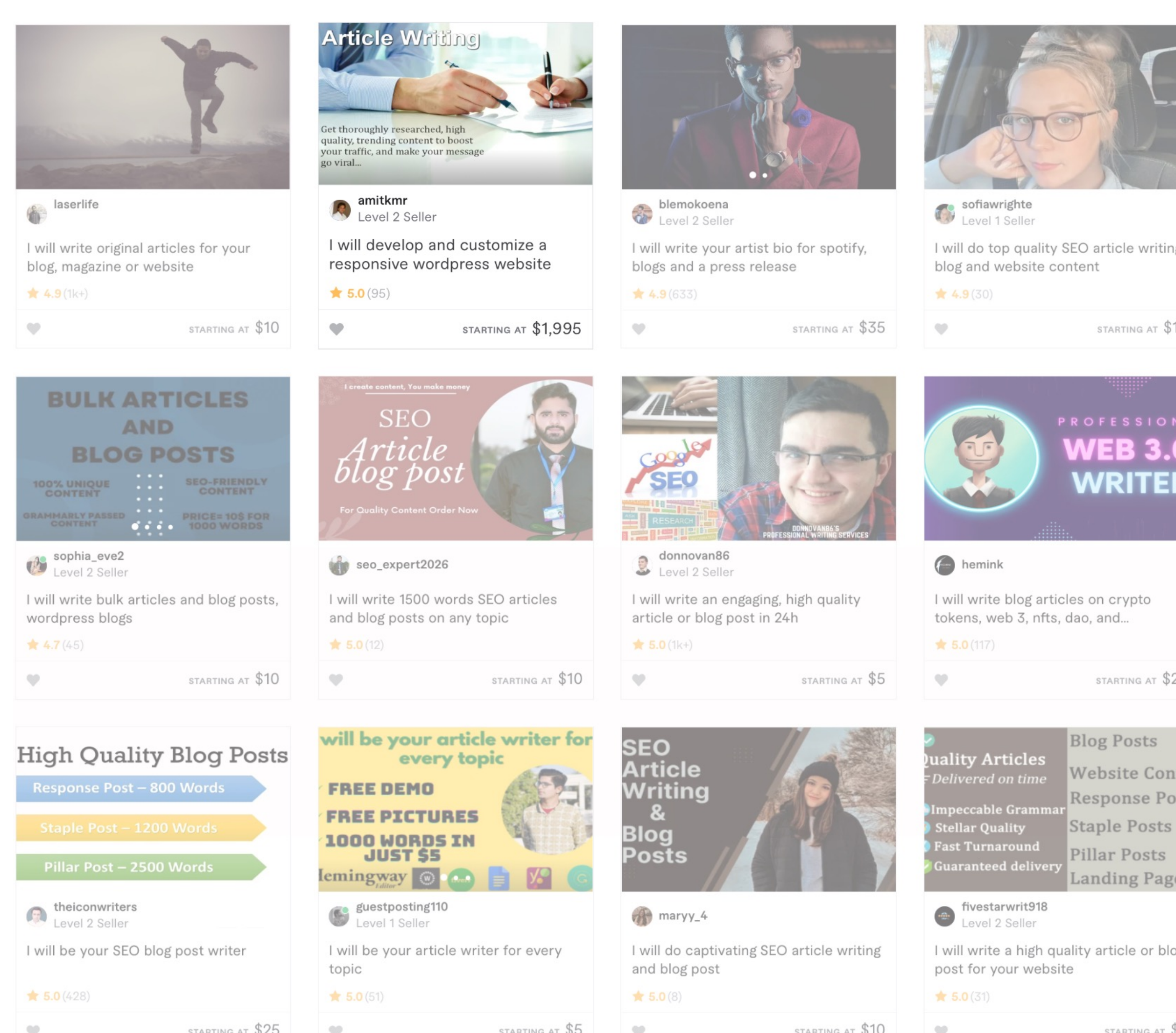
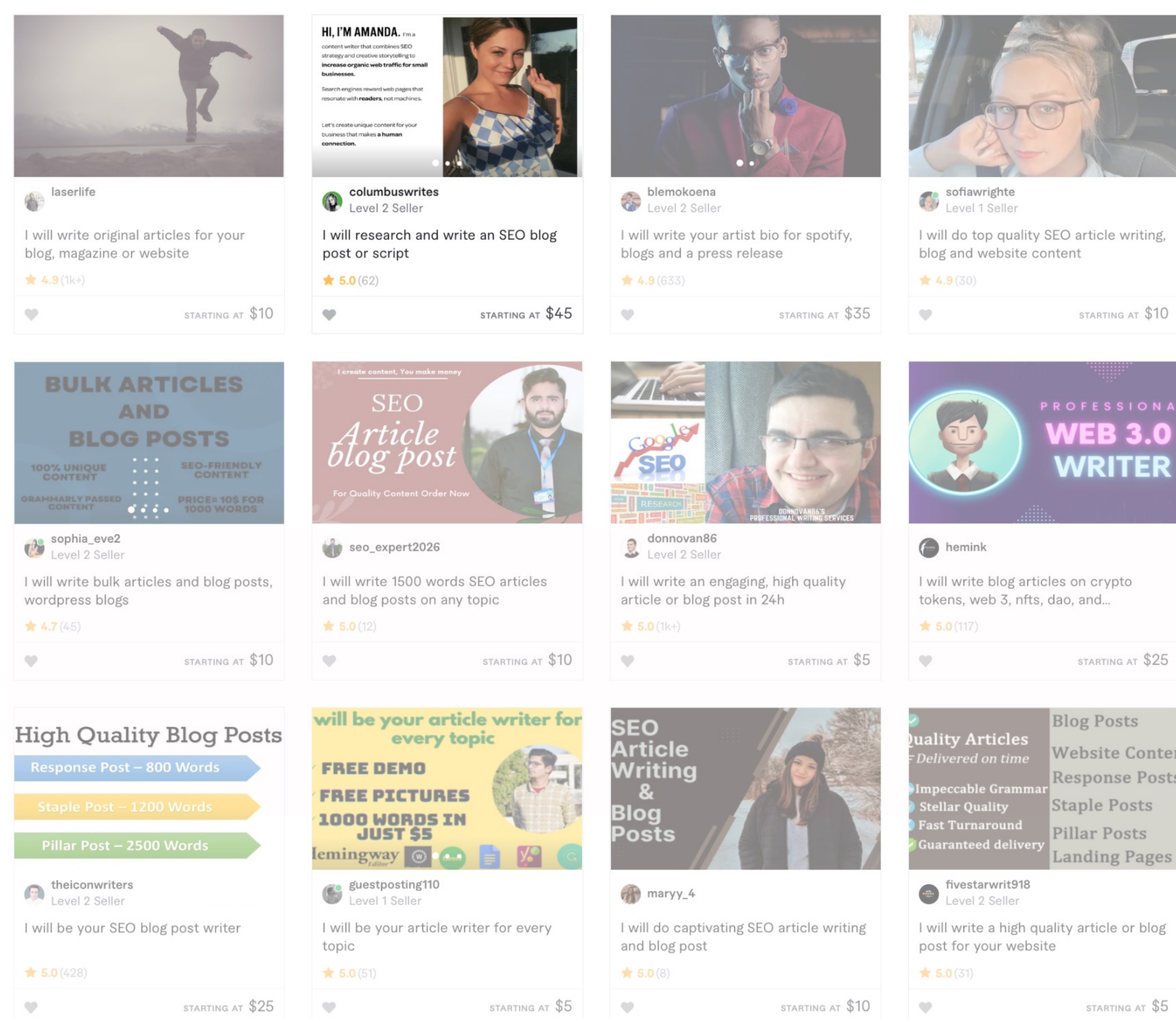
SUMMARY

Existing literature offers conflicting hypotheses regarding the effects of encountering extremely high prices. One possibility: they improve a platform's brand image.

But results from a large-scale natural field experiment reveal a reduction in the probability of a purchase from an assortment when it contains an extreme price.

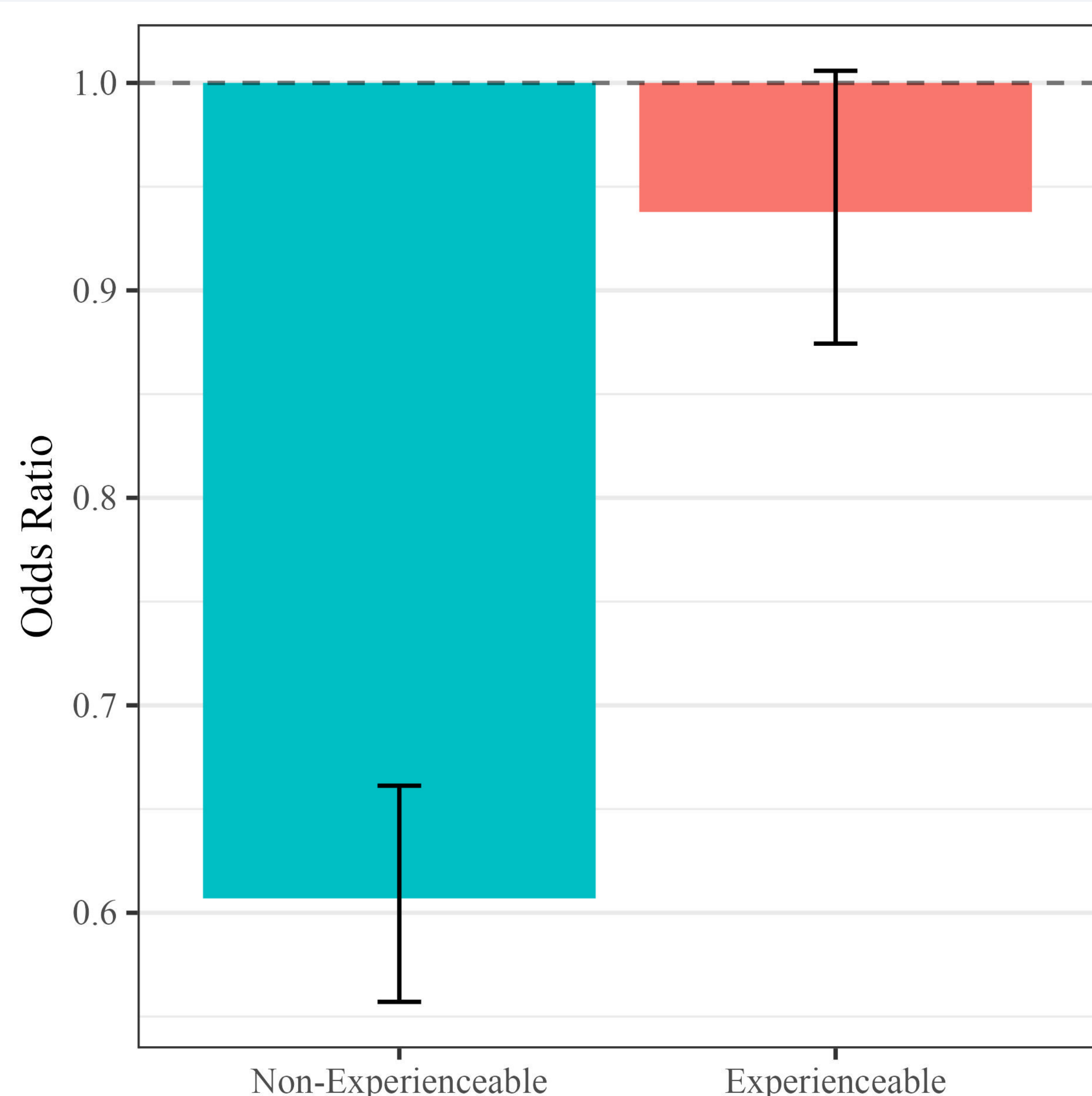
We propose that extreme prices undermine customers' trust in the marketplace. Correspondingly, the effects are strongest in contexts with greater uncertainty, underscoring the role of uncertainty in compounding issues of trust.

DATA



RESULTS

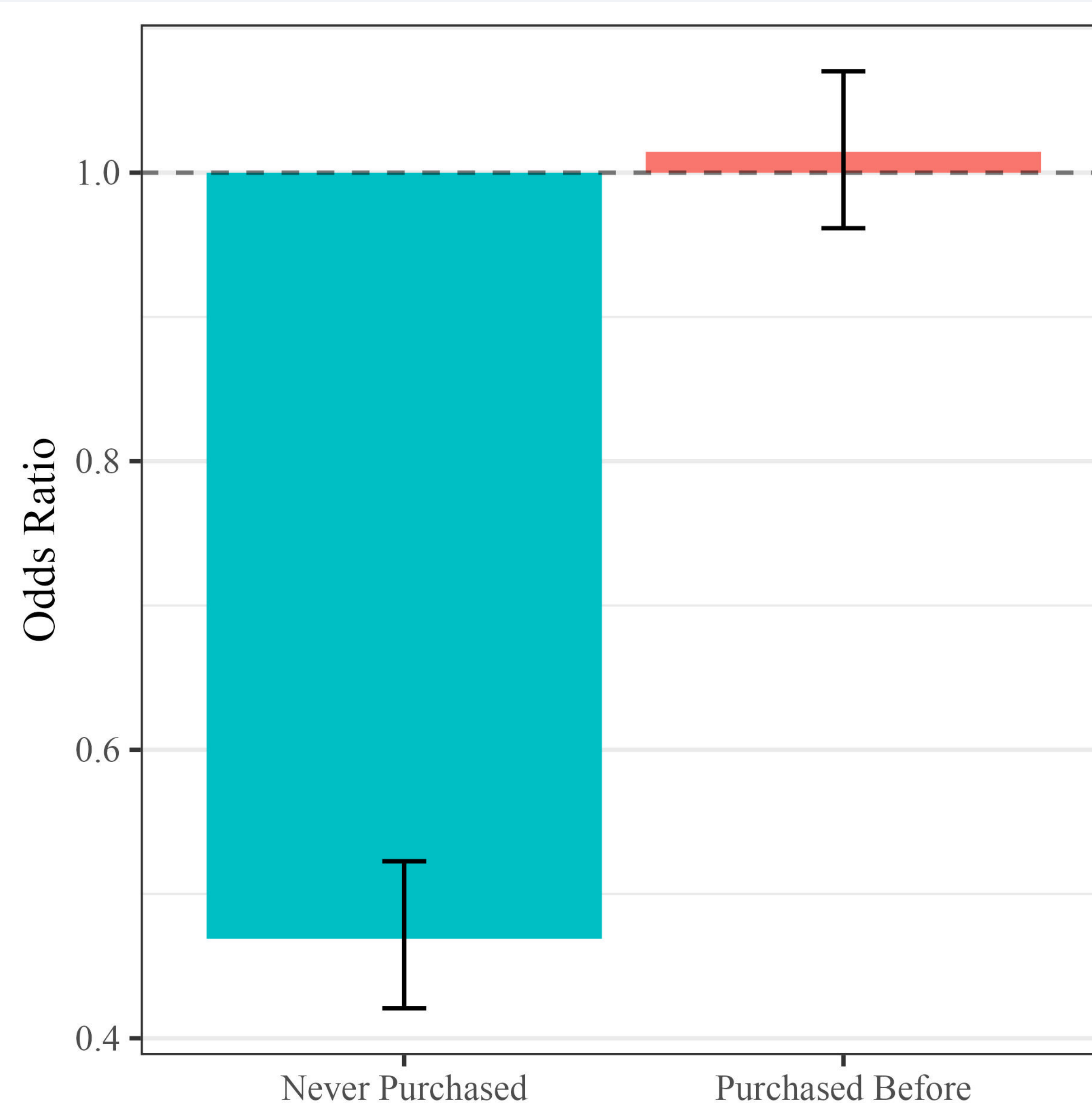
Product Uncertainty



When products were non-experienceable, the presence of an extreme price reduced the likelihood of a purchase by 39%.

In categories with elevated product uncertainty (non-experienceable) – where trust in the platform is particularly important – effects were strongest and attenuate significantly when product uncertainty was reduced (experienceable).

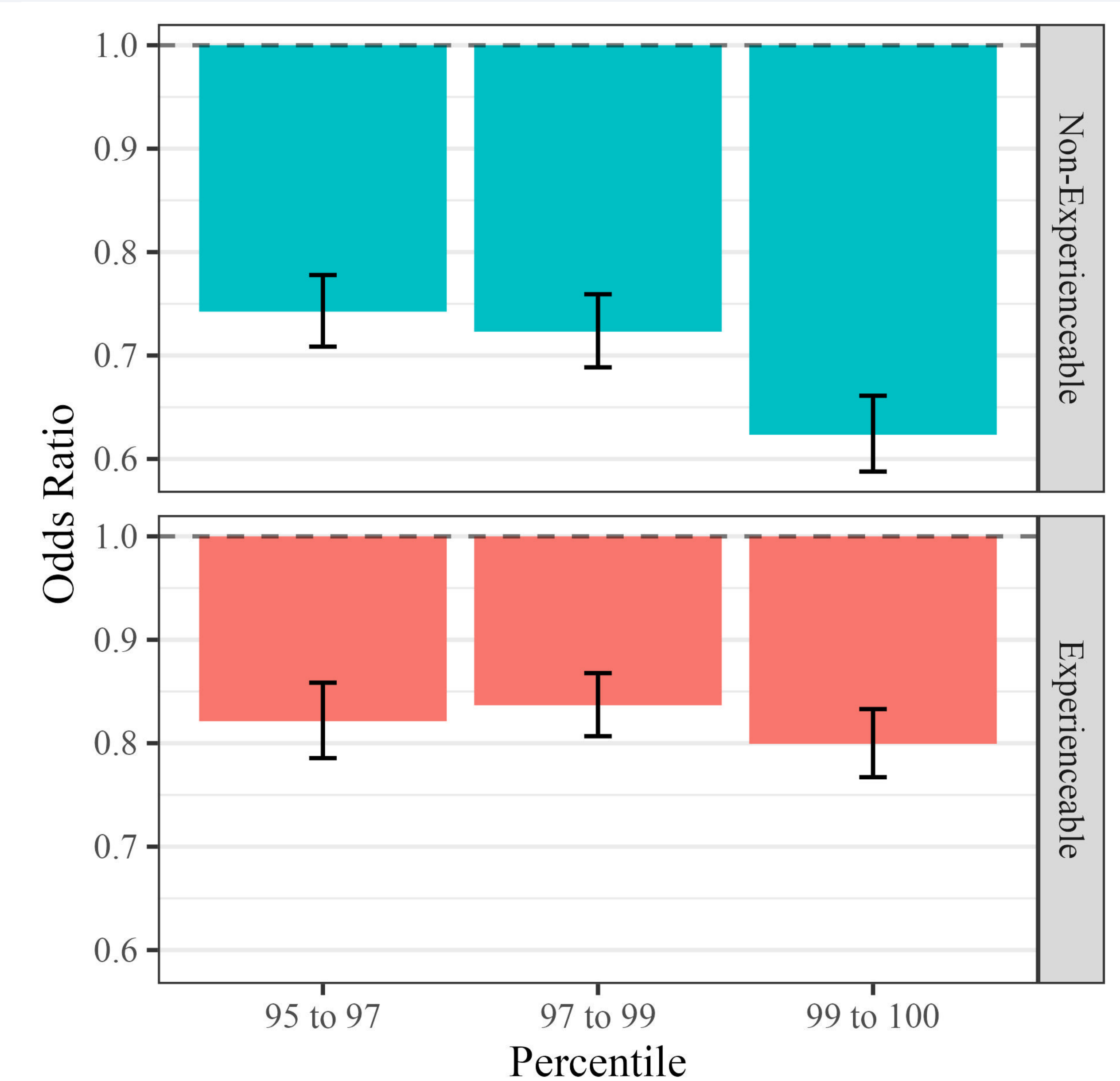
First-Time Buyers



For customers who had never purchased before, the presence of an extreme price reduced the likelihood of a purchase by 53%.

New customers, for whom trust in the platform is most important, were influenced by the presence of an extreme price but return customers were not.

Extremeness



In non-experienceable product categories, the more extreme the extreme-priced alternative was, the greater the reduction in the likelihood of a purchase.

How extreme a price is matters in settings with heightened uncertainty where the most extreme prices had the largest effects.

DISCUSSION

Additional Evidence

- Lifetime value dataset revealed effects persisted for years
- Original dataset: Oct. 2018 – Oct. 2019; replicated in 2022
- Conditional on a purchase, extreme prices had little influence on the price of the purchased alternative

Key Takeaways

- Real-world marketplace data reveals detrimental effects of encountering extremely high-priced alternatives
- Results suggest extreme prices undermine trust in the marketplace as opposed to potential range-frequency or reference point effects

Learn More

Manuscript (with full references):
<https://ssrn.com/abstract=4627020>