



The Effect of Price Discounts and Store Image on Consumer's Purchase Intention in Online Shopping Context Case Study: Nokia and HTC

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Abstract

This paper aims to examine the effect of price discounts on store image and eventually consumers' purchase intention in online shopping context of cell-phones. For this purpose, two cell-phone brands; i.e., Nokia and HTC were selected to study among 248 professors, employees and university students from University of Tabriz, Iran during April-June 2012. Required data was collected through questionnaire. Furthermore, AMOS Graphics software and Structural Equation Modeling (SEM) were used for data analysis and hypotheses testing. The obtained results proved that price discount has a positive effect on perceived store image and store image in turn, positively influences consumers' purchase intention. Accordingly, online retailers must develop effective marketing plans and improve promotional approaches to create positive store image, attract more consumers and thus, increase their online sales.

Keywords: Price discount, store image, purchase intention, online shopping

Introduction

Nowadays, world's rapid changing has encountered organizations with different challenges. Meanwhile, those organizations are successful that use management tools and new technologies to take advantage of emerged opportunities and increase their market share. Internet, as one of these tools, has become a wide field for commercial transactions and a powerful media for organizations' marketing efforts. Statistical reports show a daily increase in the number of internet users and their growing tendency to trade via internet. In this regard, many online retailers provide various promotions such as free delivery or price discounts to attract more customers to their website and thus, to increase sales.

Raghubir (2004) stated that promotions are useful cues in products' cognitive assessment and purchase decisions. According to Strahilevitz and Myers (1998), an unexpected promotion may be attributed to pure luck and reduce feelings of guilt associated with the purchase. Promotion is also stated by researchers (e.g. Collins-Dodd and Lindley, 2003) as an important attribute that contributes to generating positive image of the store. Shih (2010) conducted that store image in turn, affects purchase intention positively. Thus, studying the relation between promotion, store image and purchase intention seems useful for sales managers in obtaining effective managerial solutions in improving promotional approaches and store image. In this regard after presenting the literature review, we describe research methods and results. We then discuss our research findings and explore their implications for management and future research. Finally, we describe the study limitations.

Literature Review

Stimulus-Organism-Response (SOR) paradigm

The theoretical framework of this research is based on the stimulus-organism-response paradigm developed by Mehrabian and Russell (1974). The SOR paradigm explains how physical environments influence individuals' internal and behavioral states.

The stimulus refers to attributes (e.g. promotion, price, music, services) that are located in the environment and influence individuals' affective and cognitive states. Baker et al. (2002) and Eroglu et al. (2003) stated that individuals' affective and cognitive states affected by stimuli finally result in behavioral responses (e.g. approach or avoid behaviors).

Stimulus: Price Discount

The field of Promotion represents the 4th "P" of the Marketing Mix: Product, Price, Place and Promotion. The American Marketing Association defines a company's total promotion mix as the specific blend of advertising, sales promotion, public relations, personal selling and those direct marketing tools that a company uses to persuasively communicate customer value and build customer relationships (Ehrman, 2011).

Kotler (1999) defined sales promotions as short-term incentives used to encourage the purchase/sale of a product/service. Sales promotion includes a wide variety of promotional tools designed to stimulate earlier or stronger market response and are targeted at three levels within the distribution chain: the consumer, the trade/retailer and the company's sales force. Consumer promotions include coupons, premiums, contests and etc. Trade promotions range from special discounts and free goods to training. Sales force promotions include bonuses, commissions, free gifts and competitions. This study encounters price discount as a stimulus that consumers encounter in their affective and cognitive process.

Organism (cognitive states): Store Image

Eroglu et al. (2001) defined cognitive states as the internal- mental states of individuals. This paper studied store image, as a cognitive state, and its final effect on purchase intention. Martineau (1958) introduced the concept of store image and defined it as the way in which consumer's mind pictures the store, partly by its functional qualities and partly its atmosphere of psychological attributes. James et al. (1976) also defined store image as "a set of attitudes based upon evaluation of those store attributes that are deemed important by consumers". This study defined store image as the overall attitude consumers derive from both intrinsic and extrinsic characteristics of the store.

Responses: Purchase Intention

Eroglu et al. (2001) stated that according to the SOR paradigm, consumer responses refer to approach or avoidance behaviors, which are consequences of affective and cognitive states. Eroglu et al. (2003) also mentioned that approach behaviors include positive responses such as purchase intentions and patronage intentions. Wu et al. (2011) following other researchers, stated that purchase intention represents the possibility that consumers will plan or be willing to purchase a certain product or service in the future. Dodds et al. (1991) concluded that an increase in purchase intention means an increase in the possibility of purchasing.

Research Model and Hypotheses

The model of this study (Figure 1) addresses how price discount influences store image and eventually consumer's behavioral responses. The sequence of effects in the model is that price discount (S) affects store image (O) and eventually, consumers' purchase intention (R). Based on this rationale and the assumed SOR model, following hypotheses are developed:

H1. Price discount has a positive influence on consumers' perceived store image.

H2. Store image has a positive influence on consumers' purchase intention.

Figure 1: Research Model



Methodology

Brand selection

This study investigates Nokia and HTC cell-phone brands. The reason for this selection was because Nokia is a well-known and long-established brand within the studied country; Iran. Also according to conducted surveys, Nokia allocated first place in Iran's cell-phone market by year 2011 (Tebyan-zn website, 2012). In other hand, HTC as a newcomer brand is attracting a growing attention within the studied country and investigated sample over time. Therefore, studying the effect that price discount and store image has on consumer's intention in purchasing these brands seemed useful to the researchers.

Sampling method

Cochran's formula was used to determine an appropriate sample size that would ensure the accuracy of the study findings. Accordingly, it was conducted among 248 professors, employees and university students from University of Tabriz, Iran during April-June 2012. The reason for this choice was the ease of access and high probability of society cooperation in the research process.

Instruments

Required data for study were collected through questionnaire, using Likert's 5-point scale where 1 meant strongly disagree and 5 strongly agree. The questionnaire (Table 2) included a

total number of 18 questions; first three questions asking respondents' general specifications, next three for price deals, six questions for store image and final six for purchase intention. Cronbach's Alpha coefficient was measured to test the scale reliability and obtained results (0.934 for price deals; 0.875 for store image, and 0.887 for purchase intention) indicated an acceptable stability for the research questionnaire.

Table 2: Study Questionnaire

PD1- Price deals for X are frequently offered.
PD2- Too many times price deals for X are presented.
PD3- Price deals for X are emphasized more than seems reasonable.
<i>Yoo et al. (2000)</i>
SI1- I like the services Iran-Khodro sales representatives' provide.
SI2- I like Iran-Khodro sales representatives' atmosphere.
SI3- I like Iran-Khodro sales representatives' convenience.
<i>Park and Lennon (2009)</i>
SI4- The stores where I can buy X carries products of high quality.
SI5- The stores where I can buy X would be of high quality.
SI6- The store where I can buy X has well-known brands.
<i>Yoo et al. (2000)</i>
PI1-How likely is that you will shop for this merchandise via this online store?
PI2-How likely is that you will purchase this merchandise via this online store?
<i>Park and Lennon (2009)</i>
PI3- This brand is my preferred brand over other similar brands.
<i>Wang (2010)</i>
PI4- I am willing to pay money for brand X.
PI5- I consider buying brand X products If I need to buy something.
PI6- I recommend brand X products to other costumers.
<i>Shih (2010)</i>

Results

Sample description

The majority of the sample was female (53.2 percent). Also respondents were mostly in the age range of 21-25 (51.1 percent) having a bachelor's degree (66.5 percent) (Table 1).

Table 1: Respondents' General Specifications

	Frequency	Percent
<i>Gender</i>		
Male	133	46.8
Female	151	53.2

Age		
15-20	33	11.6
21-25	145	51.1
26-30	36	12.7
31-35	38	13.4
36-40	12	4.2
41-45	17	6
46-50	3	1.1
Education		
Bachelor	189	66.5
Master	65	22.9
Phd	30	10.6

Single-variable analysis

According to single-variable analysis, price deals, store image and purchase intention had negative Skewness within the sample, presenting the responses' focus on above-average. Variable means also comparing to their measurement scale, all, earned above-average score (Table 3).

In general, if the absolute value of Skewness and kurtosis coefficients is smaller than one, then it is said that the distribution is almost normal. For this research all coefficient values are less than one. Therefore, we can consider each variable's distribution as normal. To examine studied variables' status among research sample, we also used one sample t-test, considering 3 as the test's value. Based on this, hypothesis zero for each variable meant that the variable's status was equal with 3. Obtained results did not confirm hypothesis zero for any variable, also given borders were all positive showing the appropriate status of the studied variables among the sample.

Table 3: Descriptive Statistics

	Mean	Std. deviation	Skewness	Kurtosis	t-test
Price deals	3.37	0.98	-0.320	-0.375	6.480
Store image	3.57	0.70	-0.177	0.034	13.739
Purchase Intention	3.62	0.72	-0.259	-0.216	14.600

Bivariate analysis

The correlation analysis results (Table 4) presented a high amount of effectiveness among studied variables within the sample. According to the obtained coefficients, the relations between price deals, store image and purchase intention is confirmed at 1% significant level. Thus, we can say by 99 percent of confidence that in the studied sample, price discount is associated with store image, and store image is associated with purchase intention.

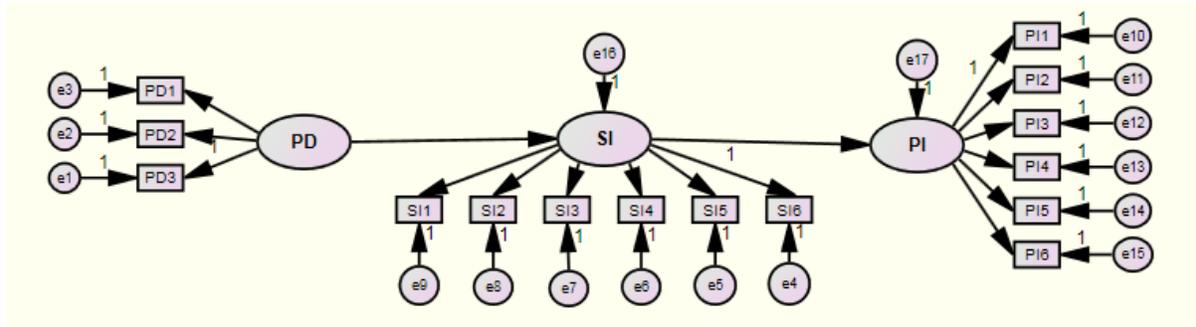
Table 4: Correlation Test between Variables

	Spearman Correlation Coefficient	Sig. (2-tailed)
Price deals and store image	0.910	0.000
Store image and purchase intention	0.810	0.000

Structural model of the research

After examining the observed variables through questionnaire, unobserved variables were shaped using Amos Graphics, and structural relations between them were obtained (Figure 2).

Figure 2: Structural Model of Research



Hypotheses testing

The proposed model examined the relationships between price discount, store image and purchase intention using Amos Graphics software and structural equation modeling (SEM). According to the SEM results, all path coefficients were significant at the $P < 0.05$ level. Therefore, both studied hypotheses were confirmed (Table 5).

The results of goodness of fit for the model were also satisfactory (Table 6).

Table 5: Estimates for the Proposed Model

Path		Path coefficient	t-value	P
From	To			
Price deals	Store image	1.00	60.391	0.000
Store image	Purchase intention	0.87	21.221	0.000

Table 6: Model Fit Indicators

Indicator	Indicator type	Accepted amount for an optimal model fit	Amount in Research model	Result
GFI	Goodness of Fit	Higher than 0.9	0.906	Acceptable
NFI	Comparative	Higher than 0.9	0.943	Acceptable
IFI	Comparative	Higher than 0.9	0.961	Acceptable
CFI	Comparative	Higher than 0.9	0.961	Acceptable
PCFI	Parsimony	Higher than 0.6	0.686	Acceptable
PNFI	Parsimony	Higher than 0.6	0.673	Acceptable
CMIN/DF	Parsimony	Between 2 & 3	2.975	Acceptable
HOELTER	Sample Size Adequacy	123	284	Acceptable

Discussion and Conclusions

The study examined the experimental variables: price discounts and store image and their final effect on consumers' purchase intention in cell-phone online shopping context. Obtained results demonstrated that the model is effective in explaining the buyers' response to the external

stimuli; price discount. The study has also important implications for designing appropriate price promotion strategies and improving store image.

Developing and managing store image

As stated above, store image had a direct, positive relationship with purchase intention. This result has important implications for online sales managers alike: consumers' intention in purchasing a product can be influenced by the online store which the product is sold. Thus, consumers may derive some amount of "added value" from the image of the store (for example "I bought this cell-phone from a prestigious store, therefore it has better value"). Accordingly, manufacturers should be careful in choosing retailers whose image is consistent with their brand's positioning. Retailers may be able to leverage their store image through store advertising to attract more customers. For example, a store's advertising could stress a pleasant shopping experience. Interestingly, low knowledge respondents' purchase intentions were more influenced by store image than high knowledge respondents'. This suggests that retailers may be able to specifically attract low knowledge consumers using store image attributes. Thus, they need to ensure that the shopping experience itself is good, by designing a pleasant store atmosphere and offering superior services.

Price promotional strategies

Although price discount had positive effect on perceived store image, on the other hand, retailers typically want customers to perceive their products to have high reference prices so perceived savings are greater when a discount is offered. Thus, they should make sure that words such as "sale" or "special" are used on discounts, so consumers believe that the discount is only temporary and do not consider it as a reason for poor quality of the product. Furthermore, past research has demonstrated that just the use of such semantic phrases stimulates consumers' interest (Inman et al., 1990) and enhances promotion effectiveness.

Limitations and Avenues for Future Research

In conclusion, although the study provided some interesting insights on consumers' responses to price promotions and store image, its findings could be cross validated with a non-student population and diverse product categories. Furthermore, the model tested in this paper could be extended to other products or services. It could be argued that store image may be even more important in the purchase of a service because the service encounter takes place in the "store" and as Baker et al. (1994) concluded, merchandise/service quality may also influence store image.

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