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INCREASING INFORMATION TRANSPARENCY: IMPLICATIONS OF CONSUMER PRICE POSITING FOR COMSUMERS' BEHAVIOR AND A SELLER'S PRICING STRATEGY

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ABSTRACT

In an attempt to gain a better position in haggling, consumers often seek a seller's pricing information (e.g., whether the posted price is negotiable, the discount and transaction prices, etc.) before going to that seller. Although traditionally difficult to obtain, such information is becoming increasingly available due to consumer price posting (CPP), whereby consumers post and share their purchase price information on the Internet. In this analytical study, we consider a market in which a seller, who chooses between a fixed price policy and a haggling policy, serves two types of consumers who differ in their willingness to pay and haggling costs. We explore how CPP can affect consumers' behavior and the seller's pricing strategies (i.e., pricing policy and the associated prices). In the absence of CPP, our model features a two-sided uncertainty: the seller does not know individual consumer's type and thus may find it optimal to use a haggling policy to price discriminate consumers, whereas consumers do not readily observe the seller's cost type and pricing policy, and thus are uncertain whether their haggling will be fruitful. In the presence of CPP, consumers' uncertainty about the seller's pricing policy is resolved. Because CPP can improve price transparency, inhibit consumers' acceptance of a posted price and spur price haggling, it seems apparent that it should benefit consumers and hurt the seller. However, our analysis shows that CPP can lead to fewer purchases, higher prices and even a greater seller profit. It further shows that although CPP surely increases information accessibility, it can also reduce the amount of information available to consumers. These results are in sharp contrast to the conventional wisdom in the literature.

Keywords: Consumer price posting, UGC, social media, price haggling, price discrimination, information transparency.