Pricing and Public Policy: A Research Agenda and an Overview of the Special Issue

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The core element of a free-market economy is price competition. When firms engage in pricing behaviors such as price collusion, price fixing, deceptive price advertising, predatory pricing, resale price maintenance, price confusion, and price discrimination, the pricing practices of firms have an enormous impact on public welfare. It is not surprising then that a great deal of government legislation and judicial decisions focuses on the pricing behavior of firms. Moreover, federal, state, and even local government agencies continually monitor firms' pricing practices because consumers can be harmed. Economics researchers long have investigated the effects of pricing practices on specific markets, the economy, and consumer welfare. Marketing researchers only recently have begun to research pricing practices and their public policy implications actively. In this article, the authors review and organize the main public policy issues associated with pricing and identify research questions that need to be addressed.

Price is an important strategic marketing variable; managers must set prices carefully to respond to different pressures (e.g., competition, market, government) and achieve different objectives (e.g., meeting revenue, unit sales, and profit objectives). The price may need to communicate a certain level of quality, suggest savings or a deal, encourage customers to "trade up" to a higher priced product in the line, meet competitors' prices, exploit the experience curve, increase market share ... and the list goes on.

At the same time, the price the firm charges is also the amount of money consumers must give up to purchase the product or service (Grewal, Monroe, and Krishnan 1998). Thus, consumers can be harmed when the sacrifice they make, in the form of the price they pay, is considered "unfair." Usually, this unfairness manifests itself in some form of a breakdown in the economic system, in which the natural forces of competition fail or are circumvented and a higher, unfair price is sustainable, at least in the short term. Prime examples include price collusion and price fixing. Less obvious examples include deceptive price advertising, price discrimination, price confusion, resale price maintenance, and predatory pricing.

The fusion of price as a strategic marketing variable and a public welfare concern is long overdue in the marketing literature; marketing researchers need to examine the public policy issues raised by the various strategic pricing practices firms employ. The level of sophistication in price setting has increased significantly during the past 20 years (Monroe 1990). Technological advances have made it possible to provide much more information about the firm, its competitors, its markets, and its consumers, information on which firms base their pricing strategies. Thus, the opportunity for consumer harm must be examined continually as society deals with the impact of recent developments such as the Internet, global markets, megacorporations, and cooperative marketing arrangements. Because economic harm to consumers now is used as the best proxy for harm to society by the courts and enforcement agencies (Baer 1996), the need for consumer- and marketing-based research is heightened.

In this article, we examine an array of pricing public policy issues, focusing on the relationship between price as strategy and price as consumer welfare. We organize these issues conceptually and develop a research agenda to guide future efforts.

A Conceptual Framework

To organize the important pricing issues and prior research relevant to those issues better, we have developed a framework (see Figure 1). The key aspects of the framework are a simple supply chain: manufacturer, retailer, and consumer. We discuss the pricing public policy issues that must be addressed at each level (e.g., manufacturer level—price fixing) and the interaction among the various components (e.g., retailer–consumer interaction—deceptive advertised reference prices). The pricing issues at domestic and international levels also are introduced. The conceptual framework is intended to stimulate further research, culminating in a better understanding of how firms can meet their objectives while providing a more fair marketplace for consumers.

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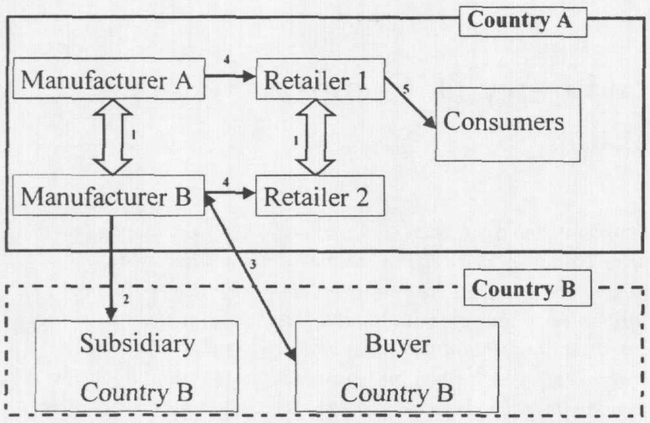
Figure 1. A Conceptual Framework of Pricing and Public Policy Issues



1 = Price colllusion, price fixing, mergers, and predatory pricing; 2 = Transfer pricing; 3 = Countertrade pricing; 4 = Resale price maintenance and price discrimination; and 5 = Advertised reference prices, scanner prices, and price confusion.

Across the Supply Chain: Manufacturer–Manufacturer and Retailer–Retailer

Consumers can be harmed when manufacturers of competing or complementary products collude, merge, or act predacious. Similarly, retailers can engage in the same behaviors at a level closer to the consumer. These three major areas of public policy concern involving manufacturer–manufacturer and retailer–retailer associations in a given industry are discussed next.

Price Collusion and Price Fixing

Recently, the Federal Trade Commission (FTC) and ten states filed complaints against four companies for allegedly monopolizing and conspiring to increase the price of two generic drugs in violation of federal antitrust laws. The FTC is seeking enjoinment and $120 million from Mylan Laboratories Inc., a manufacturer of antianxiety drugs (the second-largest generic drug manufacturer), and three of its ingredient suppliers. According to the complaint, in January 1998, Mylan raised the wholesale price of one drug (clorazepate) from $11.36 to approximately $377.00 per bottle of 500 tablets and, in March 1998, raised the wholesale price of another drug (lorazepam) from $7.30 to approximately $190.00 per bottle of 500 tablets (see FTC 1998a).

According to the FTC, the complaint filed was driven by Mylan's monopoly creation efforts and unreasonable restraint of trade, created by signing exclusive license agreements with key ingredient suppliers. Such dramatic price increases are likely to harm many consumers, in the form of increased health insurance rates, but would likely have a devastating effect on the elderly, who largely are paying for the price increases out of their own pockets. Research is needed to address the effects of such price collusion or price-fixing activities on vulnerable populations, such as the elderly, children, unemployed, uninsured, underinsured, and disabled. Such research can go further than an assessment of the economic value of the price collusion or fixing activity. It can provide insights regarding the substitutions that consumers are undertaking in such cases and the detrimental effects of such substitutions or reductions in consumption of their medications. The effects of price fixing by pharmaceutical companies and other health care organizations would be valuable in the development of future public policies and legislation.

For example, what attributions do consumers make in the light of such huge price increases? How do they modify their purchase and consumption behaviors? How do the FTC allegations affect consumers' attitude toward the firm? Moreover, research can examine the impact such practices have on the firm itself and its marketing strategies. Do firms that "enjoy" the benefits usually accorded to price fixing and monopolistic behavior change their marketing strategies? Is more or less money spent on advertising, research and development, and distribution? Does the nature of the promotion change? How do competitors, if there are any, respond? Many issues need to be studied regarding the impact of these practices on marketing strategy, both within a firm and across firms.

Mergers and Their Impact on Prices

In today's marketplace, we are experiencing a growth of merger activity (Baer 1996). Many of these proposed mergers may be blocked by the FTC on the basis of potential harm to consumers. This merger mania becomes even more alarming when we find a series of mergers within an industry (e.g., recent mergers in the automobile industry including Daimler-Benz and Chrysler and Ford purchasing Jaguar and Volvo). However, whether consumers would be harmed by any given merger is difficult to assess, because it requires predicting an outcome in a market environment saturated with an infinite number of unpredictable variables. Moreover, just how to measure consumer harm remains an issue. Nonetheless, it is important to try to assess how the merger is going to affect the prices of the products and services that the merging firms (manufacturers or retailers) sell.

In this issue, Baker presents an economic analysis of one such proposed merger between Staples and Office Depot, and Monroe discusses the implications of this case for managers (Baker 1999; Monroe 1999). Although the FTC (*FTC v. Staples* 1997) managed to block this merger, the issues of how to assess the potential impact of such a merger, such as potential harm and the likelihood of competitive entry, linger.

Monroe (1999), in his assessment of *FTC v. Staples* (1997), suggests that four key issues must be addressed to determine whether harm to competition and consumers is likely as a function of the merger. The four issues involve (1) defining the relevant markets, (2) assessing the nature of competition in the relevant markets, (3) determining the beneficiaries of the merger, and (4) the likelihood of future competition replacing the void left by the merger.

In this case, the judge defined the relevant market to be the office superstore submarket (e.g., Office Depot, Staples, Office Max). Thus, the judge's analysis left out other stores that sell office supplies (e.g., Wal-Mart, Kmart, small stores). In such a situation, data from consumers that identifies where they shop for office supplies could have been useful information for defining the marketplace and the competitors. We could argue that, if we are attempting to assess potential harm to consumers, the only way to define the relevant market is from the perception of the consumers. If consumers indicate that they consider Wal-Mart an alternative supplier to Staples, the market definition may need further analysis.

Recently, British Petroleum (BP) Company and AMOCO Corporation merged. However, BP/AMOCO agreed to divest more than 1600 gas stations in 30 markets to satisfy FTC concerns that competition would be lessened (FTC 1998b). Another high profile proposed merger between Mobil and Exxon is currently under debate. The impact of mergers such as these on consumers usually is assessed in only broad economic terms. An assessment is done regarding whether the merger would create such a giant oil company that it would make it difficult for significant competition to exist, resulting in less price competition and, therefore, higher prices to consumers. Other issues include whether the new firm could set prices for the industry. If the new firm were to dominate the industry, would consumers be provided with fewer choices and less service, along with the higher prices? Alternatively, could the new firm be able to wield more power in negotiating lower prices for crude, have greater resources for the research and development of new oil reserves, and better manage globally the supply of oil, gain efficiencies, and economies of scale, all resulting in lower prices? Given this trend in mergers, how are consumers ultimately affected when a marketplace consists of a few very large firms? It also would be important to assess the changes in the marketing strategies of these merged firms.

The public policy pricing issues associated with mergers generally center on the harm to consumers in the form of higher prices and/or reductions in quality, service, and selection due to less competition. However, reductions in innovation and research also may harm consumers in the long term (Baer 1996). If a merger will reduce competition, it is likely but not certain that higher prices will follow. Although prices may appear stable, the firm effectively can increase price by reducing quality, service, and selection. We must identify the conditions in which these effects are more likely to occur. For example, how does the level of noncomparable alternatives affect prices when a market moves toward oligopolistic competition? Even if one or two firms were able to monopolize the industry, would the easy access to noncomparable alternative forms of the product force prices to remain at least acceptable to consumers? Research sorely is needed to address these issues involved with the current merger mania in the marketplace.

Predatory Pricing

Predatory pricing focuses on a firm's reduction of prices, usually below cost, in an effort to punish a competitor or gain higher profits in the long run by putting competition out of business (Gundlach 1990). The specific predatory pricing practices include pricing below cost, price discrimination, and price warring. One of the most pressing issues here is determining what constitutes predacious behavior. Pricing below cost to unload excess inventory generally is not considered predation; however, pricing below cost to drive a competitor from the market is considered to constitute predation. Therefore, the same actions can be interpreted differently, depending on intent. As in all court proceedings, proving intent is much more difficult than simply documenting behavior. Nonetheless, methods exist but, again, are predominately economic-oriented. Research is needed to identify those marketing strategies that often accompany predation. By observing what a firm does with promotion and distribution, in addition to pricing, we can offer better evidence to assess predation.

Although pricing below cost would seem to be a necessary element for predation, courts have found firms to be predacious even though they were making a profit at the product's current price. Certain firms may be more efficient and have a lower cost structure than their competitor because of advantages attained through various methods, such as market channel agreements that lower their raw material costs relative to other companies and promotional tactics such as aggressive and disparaging advertising. In the absence of other predatory marketing strategies (e.g., increases in price promotional advertising), it seems that such a determination might undermine the very essence of a free-market economy—survival of the fittest. Thus, research is needed to understand predation more closely from a more holistic marketing strategy view. Moreover, research is needed to assess the impact of such behavior on consumers. For example, in the short term, consumers benefit by paying less. But what happens after the competitor leaves and the predatory firm raises prices? How do consumers react? Are consumers aware? Does it cause any backlash? There are many issues from a consumer behavior standpoint that are simply unknown at this time. Finally, research is needed to identify factors (at all levels, product, company, and industry) that might contribute to predatory pricing practices (for more specifics, interested readers are referred to the excellent review by Gundlach 1990).

Global Manufacturer–Manufacturer Issues

As society moves toward a more unified global economy, two major areas of public policy concern involving global manufacturer–manufacturer associations, transfer pricing and countertrading, have become increasingly more important.

Transfer Pricing

A transfer price is the price charged by a manufacturer to its subsidiary in another country (Abdallah 1989). The price charged may be full cost, cost plus profit, or based on some formula. One public policy concern is that manufacturers may transfer their product at lower prices to take advantage of lower taxes in other countries and, thus, avoid paying higher taxes in the United States. Another scenario could be transferring at a high price to avoid paying higher taxes in the subsidiary or other country. Finally, manufacturers may transfer products at a lower price to reduce the tariffs and import duties that they must pay on certain merchandises (e.g., in many Asian counties, the import duties on electronics and automobiles can be as high as 200%).

Research is needed to identify when managers are more likely to consider transfering their products at higher versus lower prices and to understand the aggregate economic impact of such managerial strategies. Whether these practices can or should be regulated are issues that require much more investigation.

Countertrade and Dumping

Global marketers increasingly are using countertrade, in which buyers and sellers form reciprocal purchasing obligations (Paun, Compeau, and Grewal 1997). In a typical countertrade situation, a seller provides a buyer with products and takes payment in the form of other goods and services (i.e., other than money). Countries and firms that have a shortage of foreign currency are likely to encourage countertrade. In such countries, firms engage in countertrade transactions to gain a competitive edge over noncountertrade bids (e.g., Cavusgil and Ghauri 1990; Choudhry, McGeady, and Stiff 1989).

An examination of the countertrade literature suggests that little research has examined the effects of countertrade on a firm's pricing policies. If firms are allowed to dump their products in other countries at low prices, it can endanger local business and economies (Paun, Compeau, and Grewal 1997). To prevent such practices, various rules and regulations have been developed. Recent work by Paun, Compeau, and Grewal (1997) raises the possibility that such countertrade transactions could mask dumping practices. Sellers that are dumping products may be buying back other products at higher prices (relative to their value), thus enabling them to sell their products at a price seemingly higher than variable costs. However, an examination of the overall transaction would suggest the possibility of dumping. Thus, public policymakers and researchers need to study such transactions further.

Manufacturer–Retailer Issues

Two major areas of manufacturer–retailer interactions that warrant more research are resale price maintenance strategies and price discrimination. Both these strategies can have direct effects on not only consumer welfare, but also retailer welfare in the form of the retailer's bottom line.

Resale Price Maintenance Issues

Recently, New Balance athletic shoes settled FTC charges that it engaged in fixing resale prices (FTC 1996) in violation of antitrust laws. The FTC charged that New Balance had agreements with retailers that would restrict price competition (i.e., higher prices for consumers). Specifics of the retail price restriction agreements included raising the retail price of New Balance products, maintaining prices at levels set by New Balance, and not discounting the products. The FTC and New Balance have agreed on a settlement that prohibits New Balance from fixing or controlling prices. The FTC also has negotiated similar agreements with Keds in 1993 and Reebok and its subsidiary Rockport in 1995.

The issue of controlling the price at which manufacturers' products are sold to final consumers has received considerable attention over the years, most notably by economists. The issue centers on whether competition is reduced and consumers are harmed by requiring either minimum or maximum resale prices. Typically, the manufacturer wants its product sold at a minimum retail price to communicate a certain level of quality and provide a profit margin capable of supporting full-service dealers. This minimum resale price maintenance, however, generally has been considered anticompetitive and thus has been essentially illegal since 1911 (Blair and Lafontaine 1999). But, as Blair and Lafontaine point out, it has become progressively more difficult to prove minimum resale price practices, and thus, it appears to be a common practice in certain industries (e.g., high-end home audio market). Ironically, the stronger the minimum resale price enforcement by manufacturers, the greater is the likelihood that these products will find their way to gray markets. For consumers who shop on the basis of price, these gray market purchases will not be supported by the manufacturer, and thus, the consumer is denied the typical warranty or service that accompanies sales through authorized dealers. Additional research is needed to determine the extent to which these practices persist, despite their illegality. Moreover, we must assess the overall harm inflicted on consumers by these practices. A major implication with regard to these practices, relevant to consumer harm, is whether legislation is now required to force manufacturers to honor warranties on their products regardless of the channel through which they are sold. That is, it appears that manufacturers currently have it their way. For example, in the high-end audio market, some manufacturers authorize only those dealers that will not discount the price of their products, and they will not honor warranties for products not purchased through authorized dealers. Therefore, the consumer may be harmed by paying more than the price an open competitive market might support because of the lack of price competition if the product is purchased through an authorized dealer. Alternatively, the consumer may be harmed by the lack of support and service if the product is purchased through a nonauthorized dealer.

Maximum resale price maintenance is the flip side of the coin and typically is used by manufacturers (i.e., franchisors) to prevent retailers (i.e., franchisees) from charging more than the manufacturer would prefer. Blair and Lafontaine (1999) provide compelling evidence that such practices enhance or at least do not reduce consumer welfare and thus should not be considered illegal per se in the case of franchises. But, as Blair and Lafontaine note, there are cases in which maximum resale price maintenance could harm the consumer in the short term because of opportunism or when outside the franchise market system. Research should identify the impact on consumer welfare in these cases.

An interesting issue is the impact the Internet may have on both minimum and maximum resale price maintenance. For example, in response to competitors' actions, some manufacturers have had to start offering their products directly to the end consumer over the Internet, directly competing with their own authorized dealers. Will dealers use this situation as justification for charging a lower price than the minimum resale price required by the manufacturer? In addition, the notion of "exclusive territories" is blurred by the Internet, and just as customers can physically go to a seller in a different territory to make a purchase, customers now can "virtually" go to a different seller electronically to make a purchase with much less effort. Will exclusive territories become extinct? What impact will this have on resale price maintenance?

Price Discrimination

The public policy issues associated with price discrimination seem apparent and well-defined at first blush: Charging different prices to customers who compete, or to customers whose customers compete, is unfair competition and is not in the best interests of the consumer. However, under closer examination, the issues appear complex and fuzzy. For example, Monroe (1990) notes 13 defenses that can justify the use of price discrimination, as laid out in the Robinson-Patman Act. Thus, the focus has been at the firm level. However, a recent move toward "value pricing," that is, pricing products differently for different market segments according to the value the consumer places on the product (Grewal et al. 1998; Grewal, Monroe, and Krishnan 1998), flies in the face of anticompetitive discriminatory pricing at the consumer level. Given identical products, is there consumer harm when different prices are charged solely because consumers value the product differently? For example, are consumers harmed when identical software is priced differently depending on whether it is sold to an individual for personal use or to one who uses it for a business? Are consumers harmed when identical drugs are sold at different prices depending on how life-threatening the condition is for which it is prescribed? Age and gender discrimination also appear to survive in our more politically correct society (Whittelsey 1998). More research is needed to examine specific forms of price discrimination at the consumer level and its effects on consumers.

Retailer–Consumer Issues

Retailers regularly provide price information to consumers in various forms. They provide price information through advertisements and on merchandise or displays. Consumers are likely to use this price information to aid them in their shopping and in making their purchase decisions. We focus on three key public policy issues associated with retail pricing. First, we assess whether the advertised reference price provided in promotions can be deceptive and in what conditions they are more or less likely to deceive. This area has received considerable research attention, and two of the special issue articles examine issues associated with it (Biswas et al. 1999; Sinha, Chandran, and Srinivasan 1999). Second, retailers use universal product code (UPC) systems and scanners to ring up the prices at the checkout counter. We discuss public policy implications pertaining to the potential for overcharging. Third, we discuss how pricing practices followed by retailers can result in considerable confusion. In this special issue, Lee and Hogarth (1999) explicitly focus on how the price of home mortgages in the form of interest rates can be confusing to consumers.

Advertised Reference/Comparative Prices

The use of advertised reference prices in retail promotions, advertisements, and flyers is widespread. Open any Sunday newspaper and find hundreds of such promotions being offered by a variety of retailers, such as supermarkets, office supply stores, furniture stores, computer stores, appliance stores, pharmacies and drug stores, car dealers, department stores, and others. Surf the Internet and see similar price promotions. Watch the shopping channels on television and find more of the same. It seems that, today, selling prices rarely stand alone. Instead retailers are using an advertised reference price (e.g., regular price, original price, manufacturer's suggested price) to suggest that buyers will save money if they take advantage of the "deal" being offered.

Retailers and manufacturers are appealing to buyers' desires to "get a deal" (or transaction value; Grewal, Monroe, and Krishnan 1998) by comparing their sale price with a higher advertised reference price. Such a comparison makes the sale price more attractive in the buyer's mind. The central issue in these forms of advertising is whether buyers actually save the amount suggested by the deal.

The FTC has provided specific guidelines in Section 233.1: Former Price Comparisons (also see discussions in Biswas et al. 1999; Compeau, Grewal, and Grewal 1994; Grewal and Compeau 1992). A bargain is genuine if the former price is bona fide, that is, a price at which the product regularly sold for a reasonably substantial period of time. Also, the offer must be made in the regular course of business and in good faith.

In spite of reduced attention by the FTC, during the past ten years or so, several states have appeared to be more aggressive in prosecuting such deceptive practices (e.g., *Colorado v. The Mays Department Store Co.* [1990], Colo. Dist. Ct., 89CV09274; *Maryland v. The Hecht Co.* [1985], Md. Cir. Ct., 11256; *New York v. Sears, Roebuck & Co.* [1989], N.Y. State Sup. Ct., 13709/89; *North Carolina v. JC Penny Co., Inc.* [1992], Sup. Ct. Division N.C. 89 CVS 11819). Some examples of previous fines include $500,000 in *Maryland v. The Hecht Co.*, $225,000 in *New York v. Sibley, Lindsay & Curr*, and $8,000 in the case of *Colorado v. The Mays Department Store Co.* (Compeau, Grewal, and Grewal 1994; Grewal and Compeau 1992; Grewal, Grewal, and Compeau 1993).

Recent empirical research (e.g., Grewal, Monroe, and Krishnan 1998) and meta-analysis of previous research (Compeau and Grewal 1998) suggest that these reference prices, even when inflated, have considerable potential to be deceptive. Inflated reference prices can have multiple effects on consumers. They can increase consumers' value perceptions (transaction value and acquisition value), reduce their search intentions for lower prices, increase their purchase intentions, and reduce their purchase intentions for competing products.

The deceptive potential of such advertised reference prices are likely to be considerably higher for buyers with less experience or knowledge of the product and product category. Nonetheless, inflated and/or false advertised reference prices enhance consumers' internal reference price estimates and, ultimately, increase their perceptions of value and likelihood to purchase and reduce search (see Biswas et al. 1999; Grewal, Monroe, and Krishnan 1998).

It is difficult, however, to determine the veracity of different types of advertised comparative prices, and some are more difficult to judge than others. "Regular price" is somewhat easy to verify because we can examine the price offerings historically to judge whether a regular price is bona fide. That is, we can use either a time test (has the product been offered at the higher regular price at some minimum percentage of the time?) or a volume test (has some percentage of the quantity sold been at this higher regular price?).

We would argue that a volume test is unfair and presents an undue burden on the seller to control consumers' behavior. That is, a volume test suggests that the seller can control when consumers will buy their products, an untenable assumption. A seller could offer a product at a regular price for 29 out of 30 days, put it on sale the remaining day, and not be able to meet the volume test. Moreover, the volume test might result in forcing all sellers to adopt an everyday low pricing strategy, forgoing sales and comparative price claims altogether. As we (1992) have pointed out and the courts have recognized, comparative price claims can be informative and assist the consumer in the purchase choice process. A time test is reasonable, in that it still forces the seller to only offer products at reduced prices a minority of the time but allows for the variability and unpredictability of consumer behavior.

Further research is needed to understand the factors (e.g., experience, other information cues present in the promotion, deal restrictions, brand image) that may moderate the effects of advertised reference price on deal value perceptions. Specifically, the role of semantic cues or different ways of presenting price information requires additional research. Additional investigation is needed to understand the difference, if any, among claims using alternative semantic cues, such as "Regular Price/Selling Price," "Compare at/Our Price," and "List Price/Selling Price." Research also should explicate the reason for the deception and factors that may augment the deception (see work by Grewal, Marmorstein, and Sharma 1996). A critical area of research is the development of concrete measures to assess deception and the extent that consumers are deceived by these comparative price claims. Research also must assess what these various phrases/cues mean to consumers. (The use of interpretive research methods would seem helpful here.)

Even though additional research is necessary, we believe that, given the state of knowledge of the advertised reference price claims, there is clear evidence that the use of inflated or fictitious comparative prices is harmful to consumers. Thus, state attorneys general's offices and the FTC must be more aggressive in monitoring such practices. The financial and legal consequences of the use of fictitious and/or inflated advertised reference prices in advertisements need to be more severe. Current deterrents, such as cease and desist orders, fines, and posted notices of how the retailer established the advertised reference price (i.e., deal restrictions) have not been effective.

Closely related to comparative price advertising are the issues associated with deal restrictions. Sinha, Chandran, and Srinivasan (1999), elsewhere in this issue, examine consumers' evaluations of various restrictions advertisers place on their promotions. Specifically, consumers can react negatively to certain restrictive disclaimers. Having all these restrictions in the promotion can reduce the attention that consumers pay to the deal, reducing their deal valuation. Thus, consumers may be overloaded by these deal restrictions (some legally mandated and others to protect the firm) and pass on good offers. Clearly, this would not be in their best interests. Additional research on deal restrictions (e.g., types, number, media) is warranted.

Scanner Fraud Issues

In recent years, the use of UPC coding and scanner-based computer checkouts has become almost universal throughout the United States. During the past few years, there has been a growing number of complaints by consumer advocacy groups, helped to some measure by journalistic "news" television shows (e.g., ABC's *Primetime Live*, NBC's *Dateline*), that document that these stores are not updating the reductions fast enough and that consumers are being overcharged. Recently, *Dateline* (1998) tested the accuracy of checkout scanners by sending mystery shoppers to shop at well-known stores, including Montgomery Ward, Hecht's, JC Penney, Sears, and Kmart. For a fifth year in a row, *Dateline* found that the scanner inaccuracies are still present.

Stores can overring deliberately as a profit-increasing strategy, or overrings simply may happen because of managerial weaknesses. Intentional overrings are a consumer harm issue. Overrings and underrings by error is both a consumer harm and a managerial issue. These issues highlight the need for research to address the use, and/or abuse, of scanner-based pricing systems. As a consequence, recent research has started to examine whether stores indeed are charging the correct price at the checkout (Goodstein 1994; Welch and Massey 1988).

Goodstein (1994), examining this issue in a particular county in California in conjunction with the Department of Weights and Measures, collected data by buying 1234 items from 15 stores. The research results suggest that the overcharges for items bought on sale were 7.25%, compared with 3.58% for those at regular price. Building on procedures used by Goodstein (1994), the FTC conducted two additional studies in 1996 and 1998. The results of these studies also suggest that scanner inaccuracies persist (FTC 1998c).

Goodstein's (1994) results indicate that the percentage of items overcharged was greater than the percentage of items undercharged, obviously more in the favor of the retailer as opposed to the consumer. Research also must address the dollar amount of overcharges versus undercharges and the relative percentage of dollar overcharges versus undercharges. Chains that are not systematically making greater profits by overcharging and have refund policies (e.g., 1.5 times overcharges refunds) are more likely to demonstrate lack of deception (or at least intent) on their part.

Research is needed to address whether a greater number of overrings is likely to be found in stores selling higher (e.g., clothing, computers) or lower (e.g., groceries) priced items. Understanding the factors (e.g., absolute price of the item, risk level) that accentuate these inaccuracies will provide more focused directions for monitoring efforts. There is need for considerable research to identify and understand why these inaccuracies persist, as well as consumer perceptions of these inaccuracies. What are the economic and consumer consequences of these inaccuracies? Do consumers perceive that retailers are systematically overcharging them? What are the consequences of such perceptions for retailers?

Building on these issues, consumer research focusing on understanding how shoppers compare prices and form their price expectations would help shed some insight into the proportion of shoppers that is likely to notice that they are being overcharged. If the proportion is small, there is an even greater need for the media and the government to be on top of such retailers. Some counties have enacted legislation that requires stores to prove a particular accuracy level (e.g., 99% accuracy). It is important to determine what level of accuracy is acceptable. In addition, there is the issue of whether the required accuracy level should vary as a function of store type, product type, sales, or big versus small ticket items.

Price Confusion

Firms can employ certain pricing methods that make understanding the actual cost by the consumer a difficult task indeed, even when there is no intent to deceive the consumer. For example, in this issue, Lee and Hogarth (1999) discuss the confusion regarding the price of home mortgages, namely, the interest rate. It is clear that not all consumers interpret the different rates provided correctly, or even in the same way, and new legislation may be needed to help consumers better understand the price they are paying for their home loan.

It is also possible for firms to attempt to confuse consumers deliberately regarding the price they pay. The mattress industry has been criticized for years for supplying virtually identical mattresses to retailers with different model names to thwart comparison price shopping. How many young people have ordered their "10 Free CDs" only to be hit with a bill for $30.00 for shipping and handling?

The credit card industry seems replete with attempts to tack on fees and surcharges at every turn and the use of complex time and rate formulas, making the job of determining the actual cost almost impossible for consumers (*Consumer Action News* 1998–99). Similarly, banks and other financial and nonfinancial institutions are tacking on new fees for checking account and automated teller machine customers, further confusing what the convenience of a checking account actually costs to the consumer (*CFA News* 1998; Kerber 1997).

Firms encourage price confusion when they do not want to compete on price. From a marketing strategy viewpoint, when price is taken out of the equation, the firm can focus on distribution and promotion. Thus, the significant increase in promotion by banks and other lending institutions, including credit card companies, is likely not so coincidental. Although Lee and Hogarth (1999) make a nice contribution to understanding price confusion, much more research is needed regarding how different pricing methods lead to confusion and potential consumer harm and whether government intervention may be necessary. Areas that could benefit from research on price confusion include pricing practices involved with the insurance industry, medical coverage, credit cards, checking accounts, mail-order retailers, rent-to-own stores, and various forms of leasing.

Conclusions

The conceptual framework in this article introduces several important public policy implications of certain pricing practices among and within various supply chain members (i.e., manufacturers, retailers, and consumers), both at the domestic and international level. More important, using this structure, we identify the gaps in the current literature and future research needs. Although progress has been made, a great deal of additional research is needed to understand the complex issues we raise. Overall, we challenge marketing scholars in pricing to consider public policy more specifically in their research programs. We hope that this special issue (and the various articles) will act as an impetus for further research on the public policy issues associated with pricing practices.

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