Abstract

Although the need for service pricing research is frequently voiced at conference sessions focusing on services marketing strategy, a macro examination of retail service pricing has yet to be developed. A discussion of how retail service pricing is unique from the pricing of retail goods is presented. The framework for the discussion is based on demand, cost, customer, competitive, profit, product, and legal considerations. Clearly, differences do exist. Research issues pertaining to retail services are also provided. It is our collective hope that this discussion will spur interest and generate much needed research in the area of pricing retail services.

Keywords: Services marketing; Pricing and retailing

1. Introduction

Of the traditional marketing mix variables that are utilized to influence customer purchase decisions, the development of effective pricing strategies perhaps remains the most elusive. Pricing is often a perplexing issue for practitioners and researchers alike. Consider the following sample of expressed opinions regarding pricing practices over the last 50 years that reflect both the confusion and frustration associated with pricing decisions:

... pricing policy is the last stronghold of medievalism in modern management ... [Pricing] is still largely intuitive and even mystical in the sense that the intuition is often the province of the big boss (Dean, 1947, p. 4).

... perhaps few ideas have wider currency than the mistaken impression that prices are or should be determined by costs of production (Backman, 1953, p. 119).

... for marketers of industrial goods and construction companies, pricing is the single judgement that translates potential business into reality. Yet pricing is the least rational of all decisions made in this specialised field (Walker, 1967, p. 38).

... many managing directors do not concern themselves with pricing details; some are not even aware of how their products are priced (Marshall, 1979, p. 4).

... pricing is approached in Britain like Russian roulette — to be indulged in mainly by those contemplating suicide (Chief Executive, 1981, p. 16).

Perhaps it is reasonable that marketers have only recently begun to focus seriously on effective pricing. Only after managers have mastered the techniques of creating value do the techniques of capturing value become important (Nagle and Holden, 1995, p. 15).

Today, price remains one of the least researched and mastered areas of marketing. Research and expertise pertaining to the pricing of retail services are particularly lacking (Guiltinan, 1988). At the core of this deficiency lie three fundamental problems. First, a lack of understanding exists pertaining to the unique considerations associated with pricing intangibles that directly relates to how consumers purchase, experience, and benefit from retail services. Secondly, the absence of a dominant research agenda or a well-developed research stream in service pricing also contributes to the problem. The existing body of service pricing literature tends to be highly specific and fragmented and, at times, seemingly unrelated (e.g., Voss et al., 1998; Berry and Yadav, 1996; Turley and LeBlanc, 1993). Finally, the service pricing and retail pricing literatures seem to be growing almost independently of each other.
research is usually sent to service outlets and venues and is principally reviewed and cited by service theorists. Even at most conferences, papers that address the pricing of intangibles are not presented with goods-related pricing papers but are instead grouped with other service papers.

Retail pricing articles, on the other hand, almost always focus on the pricing of tangible retail merchandise. For example, a review of the last four volumes of the Journal of Retailing reveals only one article, a paper on pricing as a sales promotion tool for a sports team (Wakefield and Barnes, 1996), which explored pricing issues for an intangible product (i.e., service). In contrast, the number of pricing topics addressed in the recent retail literature, which are not germane to the pricing of most retail services, are numerous. Examples include articles focusing on pricing strategies associated with carrying multiple brands in a variety of product categories (Choi, 1996), pricing strategies associated with wide assortments (Vilcassim and Chintagunta, 1995), the effect of pricing practices on inventory policies (Subrahmanyan and Shoemaker, 1996; Karande and Kumar, 1995), the pricing of different package sizes of the same brand (Manning et al., 1998), the interaction of pricing policies with store name and merchandise brand names (Grewal et al., 1998), price effects of competition from alternative retail formats (Binkley and Connor, 1998), and pricing implications associated with the physical distribution of tangible products (Basu and Mazumdar, 1995).

Although the need for service pricing research is frequently voiced at conference sessions focusing on services marketing strategy, an overview of specific topics of potential interest has yet to be developed. Hence, the primary objective of this article is to provide a macro examination of retail service pricing. This discussion provides insights into the pricing of retail services that have not been previously addressed.

2. Special considerations of retail service pricing

For sometime now, service theorists have noted that services differ from goods along the four key attributes of intangibility, inseparability, heterogeneity, and perishability (Zeithaml et al., 1985). However, to date, there have not been any formal attempts to determine how these distinguishing characteristics impact service pricing. If services are fundamentally different from goods, then consumer perceptions of service prices, and organizational service pricing strategies and objectives, should also be different from those for goods. This is not to say that there is no overlap in the pricing of goods and services. Clearly, many of the terms and strategies transfer from one context to the other (Hoffman and Bateson, 1997). However, we do believe that a number of notable differences do indeed exist.

Table 1 provides an inventory of the differentiating characteristics of service pricing (Differences 1–18). The topics provided were generated first from a review of the

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retail and services marketing literature where particular pricing issues and ideas were identified as being uniquely associated with services, and second from the gaps or omissions that emerged when this literature was reviewed.

The ultimate pricing challenge faced by most retailers is determining a price that sells the merchandise, while at the same time, offering a profitable return (Lewison, 1997). When pricing retail services, many of the same factors that are considered for pricing goods should be examined. The literature suggests that retail price determination should be based on demand, cost, customer, competitive, profit, product, and legal considerations (Lewison, 1997). While the considerations are the same for goods and services, the
content of the considerations differ. The discussion that follows highlights these key differences.

2.1. Demand considerations

**Difference 1:** The demand for services tends to be more inelastic than the demand for goods.

In general, consumers of retail services are more willing to pay higher prices if doing so reduces their level of perceived risk. Perceived risk is a function of consequence (the degree of importance and/or danger associated with the purchase) and uncertainty (the variability in service performance from customer to customer or from day to day). The service characteristics of intangibility, inseparability, heterogeneity, and perishability contribute greatly to heightened levels of perceived risk.

Nagle and Holden (1995) suggest 10 factors that influence customer price sensitivity. In short, price sensitivity decreases as:

- the perceived number of substitutes decreases,
- the perceived unique value of the service increases,
- switching costs increase,
- the difficulty in comparing substitutes increases,
- the extent to which price is used as a quality cue increases,
- the expenditure is relatively small in terms of dollars or as a percentage of household income,
- the less price sensitive consumers are to the end-benefit,
- shared-costs for the expenditure increase,
- the price is perceived as fair compared to similar services purchased under similar circumstances,
- the customer’s ability to build an inventory decreases.

Examining the factors presented above, Hoffman and Turley (1999) suggest that consumers of professional services tend to be less price sensitive than consumers of goods in at least 9 of the 10 factors listed. Clearly, price sensitivities will vary across different types of retail services. Different groups of consumers will likely weigh the importance of each price sensitivity factor differently. Retailers must assess which of the factors are more salient to their target market’s purchasing decisions.

**Difference 2:** Due to the implicit bundling of services by consumers, cross-price elasticity considerations need to be examined.

Implicit price bundling is the “pricing strategy whereby the price of a product is based on the multitude of price effects that are present across products without providing consumers with an explicit joint price” (Mulhearn and Leone, 1991, p. 66). Consumers of retail services often implicitly bundle prices; therefore, total revenues may be maximized by carefully considering the cross-price elasticities of the total product offering. This proposition is particularly true in cases where the price of the core service offering influences the demand of supplemental services.

Multiproduct considerations dominate many service industries such as business services, personal services, professional services, and the hospitality industry (e.g., food service, lodging, meeting and convention planning, and travel and tourism). The golf industry provides a prime example of the effects of cross-price elasticities. Consumers have different price sensitivities for greens fees, cart fees, range fees, and food and beverage expenses. If consumers perceive the price of admission (greens fees) as a good value, they are likely to purchase additional revenue-generating products in the form of riding carts, practice range balls, and food and beverages. In contrast, if the price of admission is perceived as low in value, consumer price sensitivities for supplemental services are likely to increase. Consumers often forgo some or all of these additional services in order to keep their total expenses in line. In effect, the higher price of admission often leads to overall lower consumer expenditures and reduces the revenue stream for the firm.

**Difference 3:** Price discrimination is a viable practice to manage demand and supply challenges.

Price discrimination involves charging customers different prices for essentially the same service. This unique aspect of service pricing relates to both the perishability and simultaneous production and consumption of services. Price discrimination is a viable practice in service industries due in part to differences in the demand elasticities held by customers and the need of the organization to balance demand and supply for its service products (Hoffman and Bateson, 1997).

The viability of price discrimination is enhanced by the fact that in some services, customers readily accept that prices often drop significantly before the opportunity to sell the service passes completely (e.g., Y2K New Year’s Eve concert tickets). In other service settings, consumers have become quite accustomed to different customers paying different amounts for the same service (e.g., airfares). In addition, on-line services have now emerged that allow consumers to name their own price for airline tickets and car rentals. Service providers accept these proposals in order to cover at least some portion of their fixed costs. Some revenue is deemed better than no revenue in these situations.

2.2. Cost considerations

**Difference 4:** With many professional services (and some others), consumers may not know the actual price they will pay for a service until after the service is completed.

Although consumers can usually find a base price to use as a comparison during prepurchase evaluation, many services are customized during delivery. Consumers may not know the exact amount they will be charged until after the service is performed. For example, a patient may know what a doctor’s office visit costs, but may not know what she
charges for lab work or an X-ray. Similarly, a client may know how much an attorney charges for an hour of work but may not know how many hours it will take to finalize a divorce. In contrast to goods, which are produced, purchased, and consumed simultaneously, and then actually paid for when the final bill is presented. The final price is sometimes the last piece of information revealed to the customer.

**Difference 5:** Cost-oriented pricing is more difficult for services.

Many service managers experience difficulties in accurately estimating their costs of doing business. This difficulty arises for several reasons. First, when producing an intangible product, cost of goods sold is either a small or nonexistent portion of the total cost. Second, labor needs are difficult to accurately forecast in many service settings due in part to fluctuating demand (Zeithaml et al., 1985). Third, workforce turnover is typically high in many service industries. This, coupled with the fact that finding good personnel is an ongoing challenge (Berry et al., 1990), leads to further difficulty in estimating the costs associated with a particular service encounter. These factors make what is often considered the most common approach to pricing, cost-oriented pricing, difficult at best for service firms. Consequently, the difficulties associated with controlling and forecasting costs are a fundamental difference between goods and services pricing.

**Difference 6:** Services tend to be characterized by a high fixed/variable cost ratio.

Services are typically characterized by a high fixed/variable cost ratio. The United Parcel Service (UPS) is a prime example. UPS maintains a vehicle fleet of more than 157,000 trucks and an air fleet of more than 500 planes. The company also owns 12 mainframes, 90,000 PCs, 80,000 hand-held computers, the nation’s largest cellular network, and the world’s largest DB-2 database. As a result of this infrastructure, the company handles more than 3 billion packages and 5.5% of the United States’ GDP annually (Alden, 1998; Kelly, 1998).

In comparison to UPS’s massive fixed costs, the variable costs associated with handling one more package are practically nil. The challenges faced by businesses that have a high fixed/variable cost ratio are numerous. First, what prices should be charged to individual customers? How should the firm sell off unused capacity? For example, should an airline sell 20 unsold seats at a reduced rate to customers who are willing to accept the risk of not reserving a seat on the plane prior to the day of departure? Does selling unused capacity at discounted rates alienate full-fare paying customers? How can companies offer reduced prices to sell off unused capacity without full-fare paying customers shifting their buying patterns?

**Difference 7:** Service economies of scale tend to be limited.

Due to inseparability and perishability, the consumption of services is not separated by time and space. Inventory cannot be used to buffer demand, and the physical presence of customers and providers is frequently necessary for a transaction to take place. Consequently, service providers often produce services on demand rather than in advance. Therefore, it is difficult for service providers to achieve the cost advantages traditionally associated with economies of scale. Some services are also more likely than goods to be customized to each customer’s specifications and/or needs. Customization limits the amount of work that can be done in advance of a customer’s request for service.

### 2.3. Customer considerations

**Difference 8:** Price tends to be one of the few cues available to consumers during prepurchase.

Due to the intangible nature of services, services are characterized by few search attributes. Search attributes are informational cues that can be determined prior to purchase. In contrast, the tangibility of goods dramatically increases the number of search attributes available for consumers to consider. For example, the style and fit of a suit can be determined prior to purchase. In contrast, the enjoyment of a dinner is not known until after the experience is complete.

Pricing research has noted that the informational value of price decreases as the number of other informational cues increase (Monroe, 1973). Similarly, Rao (1972) found consumer reliance on price to be U-shaped. Price is heavily used if few cues are present, loses value as more cues become present, and then increases in value if consumers are overwhelmed with information. Consumers report using fewer cues when evaluating services than they do when evaluating goods (Turley and LeBlanc, 1993). It is apparent that price may be a more salient cue for service consumers.

**Difference 9:** Service consumers are more likely to use price as a cue to quality.

Price plays a key informational role in service consumer decision processes. Decision theory suggests that consumers will use those cues that are most readily available in the alternative evaluation process to assess product quality (Monroe, 1973). Due to the importance of its role, price should be a dominant cue for consumers attempting to evaluate service quality prior to purchase (Zeithaml, 1981). Monroe and Petroshius (1981) reviewed a number of price-perceived quality studies. The results of their review suggested that price is more likely to be used as a cue to quality under the following conditions: (1) when price is the primary differential information available; (2) when alternatives are heterogeneous; and (3) when comparative price differences are relatively large. Clearly, these conditions
exist in many service purchase scenarios (Johnson and Kellaris, 1988).

**Difference 10:** Service consumers tend to be less certain about reservation prices.

A consumer’s reservation price is the maximum amount that the consumer is willing to pay for a product. Ultimately, a consumer’s reservation price for a service determines whether a purchase or no purchase decision is made. If the reservation price exceeds the price charged for the service, the consumer is more inclined to purchase that particular service. However, if the reservation price is lower than the actual price charged, then the consumer is precluded from purchasing that particular service offering.

Guiltinan (1987) has noted the lack of service consumer certainty regarding reservation prices. Consumers’ reservation prices are determined in part by their awareness of competitive prices in the market (Monroe, 1973). For some services, the lack of pricing information available and the lack of purchasing frequency may lead to less certainty regarding the reservation price of the service under consideration (Guiltinan, 1987).

### 2.4. Competitive considerations

**Difference 11:** Comparing prices of competitors is more difficult for service consumers.

Actual price information for services tends to be more difficult for consumers to acquire than it is for goods. Further, when service price information is available to consumers, it also tends to be more difficult to make meaningful comparisons between services. For example, although base service prices can sometimes be determined in advance, competing services are not sold together in retail stores the way that many competing goods are in supermarkets, discount, or department stores. Consumers have to either individually visit geographically separated service firms or contact them to compare prices. Comparative shopping requires more time and effort.

**Difference 12:** Self-service is a viable competitive alternative.

One result of the inseparability of production and consumption for services is the possibility of the customer actively participating in the service delivery process, commonly referred to as self-service options. This aspect of service delivery has received the attention of researchers for a number of years (e.g., Bettencourt, 1997; Kelley et al., 1990; Lovelock and Young, 1979; Mills, 1986).

The availability of self-service options has an effect on customer perceptions of the service (e.g., Zeithaml et al., 1993). Initially, self-service options invariably provided the service customer with some form of price reduction (e.g., self-service gasoline; Lovelock and Young, 1979). Today, the literature suggests that service customers often are seeking other benefits besides lower prices when purchasing self-service options. These benefits might include: greater convenience, more control, less human contact, faster service time, greater efficiency, and greater independence (Bateson, 1985). Self-service options must be considered in the formation of pricing strategy.

### 2.5. Profit considerations

**Difference 13:** Price bundling makes the determination of individual prices in the bundle of services more complicated.

Bundling, the practice of marketing two or more goods and/or services for a single price, is a useful strategic pricing tool that can help services marketers achieve several different strategic objectives (Guiltinan, 1987). However, it also complicates the alternative evaluation process for consumers. Consumers experience difficulty when attempting to calculate how much each component of the bundle is contributing to the total cost. For example, a consumer evaluating available alternatives for a trip to Jamaica might have a hard time comparing the costs associated with an all-inclusive hotel package bundled with airfare and transfers to a traditional pay-as-you-go vacation alternative.

**Difference 14:** Price bundling is more effective in a service context.

A wide variety of services make use of price bundling as a strategic approach to pricing (Guiltinan, 1987). Many service organizations bundle their own service offerings together, as when a doctor combines diagnostic tests with physical examinations. Other service organizations choose to form strategic alliances with other firms and bundle services that each provides. For example, the travel industry bundles hotel charges, airline tickets, and transfer services into a single price. Regardless of the form or type of bundling, this strategy essentially creates a new service that can be used to either attract new customers, cross-sell existing customers, or retain current customers (Guiltinan, 1987). Bundling has proliferated in the service sector primarily because of high fixed/variable cost ratios, the degree of cost sharing, and the high levels of interdependent demand.

### 2.6. Product considerations

**Difference 15:** Compared to the goods sector, there tend to be many different names for price in the service sector.

One of the interesting aspects of pricing in a retail service context involves the many different names that are used to express price in different service industries. For example, in the financial services industry, the term price is rarely, if ever, used. Instead, customers pay service charges, points, and commissions. Travelers pay airfares or bus fares.
Apartment dwellers pay rent. Hotel occupants are charged a room rate. The list goes on and on.

Upon further examination, many of the terms used for price in the service sector incorporate the benefit(s) customers receive. For instance, customers pay fares for the benefit of transportation, rent and room rates for occupancy, and service charges for processing requests. Is price by any other name, still a price, or does incorporating the benefit into the term used for price alter consumer perceptions and affect price sensitivities?

**Difference 16:** Consumers are less able to stockpile services by taking advantage of discount prices.

Retail pricing researchers note that pricing policies and strategies can have a direct impact on inventory decisions and planning (Subrahmanyan and Shoemaker, 1996; Walters, 1991; Lazear, 1986). Goods are often discounted to reduce overabundant inventories. Consumers take advantage of the discounts and often engage in forward buying. Forward buying enables consumers to build their own inventories of goods and reduces the amount of defections to competitive brands. In contrast, services cannot be stored. Consequently, service consumers cannot stockpile service offerings. When consumers need or want a service, they must pay the prevailing price.

**Difference 17:** Product-line pricing tends to be more complicated.

Product-line pricing, the practice of pricing multiple versions of the same product or grouping similar products together, is widely used in goods marketing (Bearden et al., 1998). Consumers of goods can more easily evaluate the differences among the multiple versions offered, since tangibility provides search attributes. Search attributes assist consumers in making objective evaluations (Zeithaml, 1981). In contrast, consider the difficulty of real estate consumers when faced with the choices offered by Century 21 Real Estate. The company offers home sellers three levels of service that are priced at increasing commission rates of 6%, 7%, and 8%. Customers, particularly those that sell their homes infrequently, lack the expertise to make an informed decision. The performance levels associated with the three levels of service offered cannot be assessed until after the contract with Century 21 has been signed and the customer has committed to the commission rate.

Traditionally, product-line pricing provides customers with choices and gives managers an opportunity to maximize total revenues (Vilcassim and Chintagunta, 1995). However, the product-line pricing of services more often than not generates customer confusion and alienation. Industries struggling with the price lining of their services include telecommunications (e.g., AT&T, MCI, and Sprint calling plans), health care (e.g., multiple versions of Blue Cross/Blue Shield plans, HMOs, etc.), and financial services (e.g., multiple types of checking and savings accounts, investment options, etc.).

### 2.7. Legal considerations

**Difference 18:** The opportunity for illegal pricing practices to go undetected is greater for services than goods.

Is it legal for a physician to charge excessive prices for vaccinations during an influenza epidemic, or for repair services to triple their hourly rate to repair homes in neighborhoods damaged by severe weather? In some states there are gouging laws to protect consumers from such practices during special circumstances. However, the special circumstances (e.g., epidemics and severe weather) draw attention to such practices. In contrast, identifying excessive service pricing practices is not as clear for “everyday” types of purchase occasions.

In general, the opportunity to engage in, and benefit from illegal pricing practices in the service sector is predominantly attributed to intangibility and inseparability (Hoffman and Siguaw, 1993). Intangibility decreases the consumer’s ability to objectively evaluate purchases, while inseparability reflects the human element of the service encounter that can potentially expose the customer to coercive influence techniques.

Specific sources of consumer vulnerability to corrupt service pricing practices include the following.

- Consumers have less prepurchase information available to make an informed, intelligent decision.
- Many services are technical and specialized and not easily understood by customers.
- Evaluations of some service products such as insurance and financial planning do not take place until some future point in time.
- Many services are sold without warranties or guarantees.
- Boundary-spanning personnel who are not under the direct supervision of managers provide services.
- Variability in quality is somewhat accepted.

The pricing implications of service consumer vulnerability are twofold. First, consumer vulnerability and perceived risk are directly related. Consumers feeling particularly vulnerable are willing to pay higher prices for a service if it lowers their perceived risk. Secondly, retailers that abuse the customer’s trust by taking advantage of vulnerable consumers through excessive prices may benefit in the short-term, but once they are discovered, the long-term success of the company is doubtful. To consumers, the issue is one of fairness and dual entitlement. Cost-driven price changes are perceived as fair, because they allow sellers to maintain their profit entitlement. In contrast, demand-driven prices are often perceived as unfair. They allow the seller to increase their profit margins purely at the expense of the increasing consumer demand (Czinkota et al., 2000).
3. Future research

While investigating the literature for this article, it became apparent that the number of research publications that pertained to retail service pricing issues was scant. In an effort to raise awareness and spark interest in service pricing issues, this article has attempted to provide insights into the fundamental differences that should be considered.

| RI 1 | Researchers should continue to develop pricing models that recognize that different types of services may require different theoretical approaches. It is important to recognize that the term “services” represents a wide variety of industries. Competing firms in the same industry may have different goals and objectives. Just as one pricing approach will not work for all goods, a single pricing approach will not result in an optimal price for all services. |
| RI 2 | An empirical test of Guiltinan’s price bundling ideas should be performed. Guiltinan’s (1987) ideas and assumptions for the bundling of services have yet to be empirically tested. Researchers might consider a variety of related research issues. For example, do consumers perceive a bundle as a new product? When two bundled services are independent, will adequate numbers of customers purchase the bundle to make the strategy worthwhile? |
| RI 3 | A comparison of alternative strategies for informing and educating consumers about price levels should be investigated. Consumers have relatively higher search costs when evaluating services prior to purchase. A managerial research issue associated with service pricing concerns the particular strategies that service firms might use to educate consumers about their prices. Currently, service advertisements in the print media do not appear to regularly include pricing information (Turley and Kelley, 1997). Research identifying viable means of educating consumers on pricing information may help services marketers to reduce customer search costs, which ultimately may induce consumers to switch, or at least sample, a new service. |
| RI 4 | Researchers should investigate whether there are ranges of acceptability for price changes used to manage demand. Service researchers might consider the magnitude of the change necessary to influence or manage consumer demand. While traditional economic thinking on supply and demand suggests that demand will fluctuate along an existing demand curve, marketing researchers testing adaptation-level theory have tried to identify the “just-noticeable-differences” (JND) in price. Further focus on the JND necessary to influence or manage demand for services may be of interest to pricing researchers and practitioners. |
| RI 5 | Studies that examine whether reservation prices are really less firmly entrenched for service consumers need to be performed. Reservation prices are related to price expectations, which are based upon consumer knowledge of prices for a particular service. How knowledgeable are consumers about service prices? Can they remember the last price they paid for particular service purchases? Initial focus on reference prices in the context of service pricing may prove fruitful as researchers investigate the nature of service reservation prices. |
| RI 6 | Evidence exists suggesting that price is not the most salient cue in service evaluations and that its importance varies across services (Crane and Clarke, 1988). However, this research was based upon consumers’ recall of recent service purchases rather than the experimental manipulation of price and other relevant decision criteria. Experiments focusing on the role of price in decision making and the influence of price on other decision criteria need to be performed in a variety of retail service contexts. |
| RI 7 | Service theorists should study the effect of price increases for services on consumer behavior. When faced with situations where service price increases are warranted or desired, how should service firms implement these changes? Is it better to gradually increase prices over some period of time or to make a substantial leap all at once? What effect does each of these strategies have on consumer expectations, repurchase intentions, and perceptions of value, quality, and loyalty? |
| RI 8 | Researchers should investigate methods for justifying wide price differences in competing services. Some services such as lodging, hair stylists, and attorneys, are often characterized by wide differences between competitors’ prices in a given market. An obvious answer is to base differences on service quality. However, a recent content analysis of print services advertising found that quality claims are not prevalent in service promotions (Turley and Kelley, 1997). An experimental design manipulating both price and quality information in several different types of services, with choice as a dependent variable, could provide insight into the strategies that could be used to justify above average prices for a service. |
| RI 9 | How do you convey differences in quality through the prices of services should be the focus of research in future service pricing studies. A related issue deals with the price–quality relationship in services. Although there is a widely held perception by service researchers that consumers use price as a cue to quality in services, there is little evidence to support this assumption. |
| RI 10 | What are the effects of customer participation on consumer perceptions of retail service prices? Customers participate in a variety of aspects of the service delivery process (Kelley et al., 1992). While researchers have considered a variety of issues pertaining to customer participation, the impact of customer participation on perceptions of service prices has yet to be considered. |
| RI 11 | Conceptual and empirical studies, which focus on differentiating pricing strategies for different kinds of services, should be undertaken. Services are not a monolithic mass, and strategies used in one service industry may not work well in another service context. Studies examining consumer perceptions of prices in different services are extremely rare and merit the consideration of services researchers. |
| RI 12 | Researchers should explore the effects of price advertising on quality perceptions and intentions to buy. Turley and Kelley (1997) found that only 22% of the magazine ads in their sample included any information about the price of the service. Research should explore whether the inclusion of price information in ads significantly alters search time and effort, price–quality perceptions, and intentions to buy. |
| RI 13 | Service theorists need to study the effects of couponing on quality, value, and brand image perceptions for retail services. Although not unheard of in services, couponing is probably more prevalent in the marketing of goods. What effect does this practice have on service quality perceptions and brand image? Also, are there some types of services where coupons are more likely to be accepted by consumers? |
| RI 14 | Studies of the effects of different price endings (odd vs. whole prices) on quality perceptions for retail services need to be performed. Odd pricing in a goods context has attracted interest from researchers for several decades. A recent study of the phenomenon found that using 99-ending prices rather than 00s led to increased consumer purchasing of retail goods (Schindler and Kibarian, 1996). Interestingly, services researchers have not previously studied odd pricing strategies. The effect of price endings on sales, the image of a service, and perceptions of the price are additional issues those interested in the marketing of services should consider investigating. |
when pricing retail services. In developing these differences, a number of potential research issues emerged. Table 2 provides an inventory of potential future research issues. It is hoped that this inventory will assist those interested in pursuing a service pricing research stream.

4. Conclusion

Service pricing strategies have aspects and features that make them unique from the pricing of goods. Some of these unique characteristics are based on differences in consumer behavior and consumer perceptions, while others are based on differences in the way services are created, delivered, and managed. In this manuscript, we identify some of the more important price-related differences between these two types of products.

To date, few systematic attempts are available in identifying the issues service pricing researchers should address. We have identified some of the issues of how service pricing is unique along demand, cost, customer, competitive, profit, product, and legal considerations. In addition, a wide variety of unanswered questions and pricing issues for future research to address are presented.

Finally, services are not a monolithic mass. As noted in the first research issue of Table 2, it is important to recognize that the term “services” represents a wide variety of industries. Competing firms in the same industry may have different goals and objectives. Just as one pricing approach will not work for all goods, a single pricing approach will not result in an optimal price for all services. Given the variety of services, service pricing will remain a vital research topic for many years.

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