Is There Noticeable Price Differentiation of Identical Products between Different Retail Formats?

Where to buy the cheapest fragrances?

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INTRODUCTION

The goal of this economics project is to see if various retail formats actually show a difference in their pricing. To execute this project I selected a product category that the many different retail formats carried, and compared the prices of identical products sold in this category between the different retail formats. The product category I chose to research was women’s fragrances. Identical women’s fragrances are sold by supercenters, drug stores, department stores, off price stores, discount stores, promotional stores and by Internet retailers. A consumer could save a considerable amount of money if they knew which retail format generally charged the lowest prices for fragrances. This issue should be of particular interest to men, men often purchase perfume for their significant others for holidays and special occasions such as Christmas, Valentine’s Day, and birthdays. Knowing what retail format tends to have more reasonable prices will lower men’s search costs and will also leave the men with additional money to spend on themselves.

DATA

To compare pricing of different retail formats, identical products had to be looked at. It was difficult to come up with items that were carried by a number of retail formats. Name brand fragrances are some of the few items that I was sure many different retail formats carried, for this reason I chose to compare this product category between retailers. I decided to look at a broad range of retail formats, these included a supercenter, drug store, department store, off-price store, discount store, promotional store and internet retailer. To collect my data, I chose one local retailer to represent each retail format that I wanted to analyze.
The stores I chose to collect data from are as follows:

<table>
<thead>
<tr>
<th></th>
<th>Meijer</th>
<th>Meijer</th>
<th>Meijer</th>
<th>Meijer</th>
<th>Meijer</th>
<th>Meijer</th>
<th>Meijer</th>
<th>Meijer</th>
<th>Meijer</th>
</tr>
</thead>
<tbody>
<tr>
<td>Super Center</td>
<td>Meijer</td>
<td>Meijer</td>
<td>Meijer</td>
<td>Meijer</td>
<td>Meijer</td>
<td>Meijer</td>
<td>Meijer</td>
<td>Meijer</td>
<td>Meijer</td>
</tr>
<tr>
<td>Drug Store</td>
<td>Walgreens</td>
<td>Walgreens</td>
<td>Walgreens</td>
<td>Walgreens</td>
<td>Walgreens</td>
<td>Walgreens</td>
<td>Walgreens</td>
<td>Walgreens</td>
<td>Walgreens</td>
</tr>
<tr>
<td>Department Store</td>
<td>Famous Barr</td>
<td>Famous Barr</td>
<td>Famous Barr</td>
<td>Famous Barr</td>
<td>Famous Barr</td>
<td>Famous Barr</td>
<td>Famous Barr</td>
<td>Famous Barr</td>
<td>Famous Barr</td>
</tr>
<tr>
<td>Off-Price Store</td>
<td>Gordmans</td>
<td>Gordmans</td>
<td>Gordmans</td>
<td>Gordmans</td>
<td>Gordmans</td>
<td>Gordmans</td>
<td>Gordmans</td>
<td>Gordmans</td>
<td>Gordmans</td>
</tr>
<tr>
<td>Discount Store</td>
<td>Target</td>
<td>Target</td>
<td>Target</td>
<td>Target</td>
<td>Target</td>
<td>Target</td>
<td>Target</td>
<td>Target</td>
<td>Target</td>
</tr>
<tr>
<td>Promotional Store</td>
<td>Kohl’s</td>
<td>Kohl’s</td>
<td>Kohl’s</td>
<td>Kohl’s</td>
<td>Kohl’s</td>
<td>Kohl’s</td>
<td>Kohl’s</td>
<td>Kohl’s</td>
<td>Kohl’s</td>
</tr>
</tbody>
</table>

Next I visited each of the locations and recorded the prices of eight identical fragrances at each location. I chose these eight fragrances because each of the seven retailers carried these brands. I paid careful attention to ensure that the fluid ounces remained uniform for each of the eight fragrances that were analyzed, and also made sure that the fragrance concentration was also the same (eau de toilette is less concentrated than perfume and generally less expensive). To find appropriate information from an Internet retailer I performed a web search and chose a retailer with a large selection of fragrances who claimed to save consumers money by purchasing their fragrances via the web rather than at traditional stores. In addition, I also found a website that offered the manufacturers suggested retail price for fragrances and recorded this information. All the price information for each fragrance at each store is displayed on the following table, as well as the manufacturers suggested retail price, which appears in the last column of the table. Finally, this table sums up all the fragrance prices for each retailer and gives a price total for each retailer in the last row of the table.

Table 1: Prices of fragrances according to retail formats

<table>
<thead>
<tr>
<th>Fragrances</th>
<th>Famous Barr</th>
<th>FragranceNet.com</th>
<th>Gordmans</th>
<th>Kohl’s</th>
<th>Meijer</th>
<th>Target</th>
<th>Walgreens</th>
<th>Mgr. Sugg. Price</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sunflowers (1.7floz)</td>
<td>$29.50</td>
<td>$25.20</td>
<td>$19.99</td>
<td>$29.50</td>
<td>$26.54</td>
<td>$22.99</td>
<td>$23.99</td>
<td>$28.00</td>
</tr>
<tr>
<td>Red Door (1.7floz)</td>
<td>$46.00</td>
<td>$37.05</td>
<td>$29.99</td>
<td>$39.00</td>
<td>$34.19</td>
<td>$29.99</td>
<td>$29.99</td>
<td>$39.00</td>
</tr>
<tr>
<td>White Diamonds (1floz)</td>
<td>$35.00</td>
<td>$30.40</td>
<td>$25.99</td>
<td>$35.00</td>
<td>$29.69</td>
<td>$26.99</td>
<td>$29.99</td>
<td>$32.00</td>
</tr>
<tr>
<td>Curve (1.7floz)</td>
<td>$35.00</td>
<td>$31.50</td>
<td>$25.99</td>
<td>$35.00</td>
<td>$31.49</td>
<td>$29.99</td>
<td>$32.99</td>
<td>$35.00</td>
</tr>
<tr>
<td>Candies (1.7floz)</td>
<td>$35.00</td>
<td>$29.75</td>
<td>$25.99</td>
<td>$35.00</td>
<td>$31.49</td>
<td>$29.99</td>
<td>$29.99</td>
<td>$35.00</td>
</tr>
<tr>
<td>Cool Water (1.7floz)</td>
<td>$42.00</td>
<td>$35.63</td>
<td>$29.99</td>
<td>$40.00</td>
<td>$35.09</td>
<td>$34.99</td>
<td>$34.99</td>
<td>$37.50</td>
</tr>
<tr>
<td>Liz Claiborne (1floz)</td>
<td>$39.00</td>
<td>$31.88</td>
<td>$19.99</td>
<td>$30.00</td>
<td>$26.99</td>
<td>$22.99</td>
<td>$24.99</td>
<td>$37.50</td>
</tr>
<tr>
<td>Nautica (1.7floz)</td>
<td>$39.00</td>
<td>$32.40</td>
<td>$25.99</td>
<td>$36.50</td>
<td>$32.84</td>
<td>$29.99</td>
<td>$34.99</td>
<td>$36.00</td>
</tr>
<tr>
<td>Total</td>
<td>$300.50</td>
<td>$253.81</td>
<td>$203.92</td>
<td>$280.00</td>
<td>$248.32</td>
<td>$227.92</td>
<td>$241.92</td>
<td>$280.00</td>
</tr>
</tbody>
</table>
**Retailer Ranking by Affordability**

1. Gordmans (Off-Price Store)
2. Target (Discount Store)
3. Walgreens (Drug Store)
4. Meijer (Super Center)
5. FragranceNet.com (Internet Retailer)
6. Kohl’s (Promotional Store)
7. Famous Barr (Department Store)

**DISCUSSION**

This data suggests that the traditional department stores, like Famous Barr, tend to have higher than average prices, in fact, they had the highest prices of all the retail formats looked at. These high prices could be attributed to the more specialized attention you receive from sales associates, the nicer atmosphere (music, well lit, etc), or the convenience of the location (Famous Barr is located in the mall so the higher prices might reflect the more expensive location). Regardless of the high prices there are reasons why a large number of consumers shop at traditional department stores for their fragrances. One of these reasons is extensive width and depth of assortment. Department stores have the greatest selection of fragrances and also have a variety of sizes to choose from. Many of the other retail formats didn’t offer as extensive of a selection and usually only offered one size. In addition, department stores will be the first to carry the new fragrances that are just launched due to their market power. For instance, Miracle by Lancôme is a new fragrance that is carried by Famous Barr and was heavily advertised while I researched my data. None of the other retail formats carried this fragrance, and probably won’t for some time. Therefore, consumers will shop at department stores if their desire to have the new fragrance NOW exceeds the savings they would receive from waiting for the fragrance to be sold at more moderately priced retail formats later. Another reason consumers may shop at department stores and pay the higher prices is because they have the most visible and knowledgeable sales staff and because customers have the ability to sample all the fragrances. This is appealing to someone who doesn’t know much about fragrances and wants to ask questions and sample a variety of fragrances before making a decision. Another reason consumers may be willing to pay the higher prices of department stores is that consumers may not realize that a number of retail formats carry designer fragrances for cheaper prices. The first thing you see when you enter a department store is their fragrance and cosmetic counters. Some consumers may not even realize that there are alternative places to purchase their favorite fragrance due to lack of information. Department stores are constantly sending out flyers and brochures advertising their fragrances along with a sample. When is that last time Walgreens sent you a free sample in the mail? Is the fragrance counter the first thing you see when you go into Target? These are reasons why your first instinct might be to go to department stores to purchase designer fragrances rather than realizing your options and searching for a low price.

From the data I gathered, I can conclude that off-price retailers, such as Gordmans, are the cheapest formats in which to purchase fragrances. My research shows that on average, Gordmans prices are 30% cheaper than Famous Barr’s prices for women’s fragrances. There are a number of reasons that reflect or can explain the cheaper prices charged for fragrances at Gordmans. Although Gordmans did have a separate fragrance section, it wasn’t displayed as nicely as Famous Barr’s and there was no sales staff to assist with questions or make recommendations as the associates do at Famous Barr. The fragrance
assortments were broken and there wasn’t much depth in the assortments. In addition, not all the
fragrances sold had testers, so if you hadn’t seen the fragrance or smelled the fragrance before, you were
unlikely to purchase it. An off-price retailer is characterized by having moderate width but poor depth of
assortment and low continuity of merchandise. In addition they generally have a below average
atmosphere (poor lighting, no music, communal fitting rooms, etc) and a limited service environment
(centralized cash wraps at store entrances, opposed to department cash wraps, no gift wrap, etc).
Merchandise buyers for off-price stores buy merchandise when special deals occur. These special deals
consist of irregulars, overruns, other retailers’ canceled orders, discontinued items, etc. This
merchandise is generally purchased for much cheaper than the original wholesale prices. The low cost of
merchandise combined with the limited service and low quality of atmosphere are all reasons why off-
price retailers can charge substantially lower prices than the traditional department stores.

The breadth, depth, and display of fragrances at Walgreens, Target, and Meijer were very similar, which
helps to explain why their prices are also very close and competitive. These retail formats were cheaper
than both department stores and promotional stores. At all three of these retail formats, the designer
fragrances were difficult to locate, hid in a corner or back of the store. The fragrances were also all
locked behind a glass case, and no sales associate could be found to unlock the case. If an individual had
decided to test or purchase designer fragrances they would have to hunt down a sales associate. Discount
stores, such as Target, Drug Stores, such as Walgreens, and Super Stores, such as Meijer, all have full
assortments and obtain their goods in a traditional manner. They have low operation costs and low
expenses, therefore they can afford to charge less for their designer fragrances than department stores.
Of course, you are sacrificing service, atmosphere, and don’t have the option of purchasing the newest
and hottest fragrance on the market because it generally isn’t carried by these retail formats until it stops
being the newest and hottest fragrance.

The prices at Kohl’s were the second highest behind Famous Barr. These prices might be higher due to
the fact that Kohl’s is a promotional store. Promotional stores are quite similar to department stores
except that they rely more heavily on sales to move their merchandise and they provide a lower quality o
service and atmosphere than department stores, yet have more name brands than discount, drug, and
super stores. The quality of atmosphere, selection, and service at Kohl’s is below that of a department
stores, but above that of a discount, drug, or super store. Consistent with the previous factors the pricing
of products at Kohl’s is cheaper than the pricing of products at department stores but above that of
discount, drug, and super stores.

The pricing of fragrances at FragranceNet.com was definitely cheaper than the prices of fragrances at
both Super Centers and Promotional Stores. FragranceNet.com can afford to charge lower prices
because they don’t have the expense of a store to run. I thought that the prices of FragranceNet.com
would be the cheapest because it seems that they would have the lowest expenses but my assumption was
incorrect.

CONCLUSION

As I have shown through my data and discussion, there definitely is price differentiation between
different retail formats for identical products. My data shows that it saves the consumer the most money
to purchase their brand name perfume from off-price retailers, such as Gordmans and costs the consumer
the most to purchase from department stores, such as Famous Barr. There is no quality difference between these products because they are all identical so the difference in prices is explained by a number of other reasons. The difference in prices is due to imperfect information, differences in service and atmosphere, and high search costs. This information is important to consumers because it can help to lower many people’s search costs.

This project has its strengths and weaknesses. The weaknesses of this project are that it could have been much more in-depth. This project could have compared other product categories, not just women’s fragrances to determine if this price differentiation is consistent throughout all types of products sold. Another way this project could be improved is if more than one retailer was looked at in each retail format. This would ensure that the price differentiation doesn’t just pertain to a certain store but to a specific retail format. Also, this research would be more convincing if more than eight fragrances were compared, for instance, both men’s and women’s fragrances could be looked at. Some of the rankings were only a difference of a few dollars, if different fragrances were picked the ranking of these stores may have changed. Another way that this project could be strengthened is if it showed that price differentiation is consistent in other locations, for instance I could have checked to see if the same price differentiation occurred in a larger city such as Chicago. Although there seems to be a number of ways this project could be improved it does have its strengths. This project did look at a large variety of retail formats and did analyze the strengths and weaknesses of each of these formats. This project also helped consumers to understand the difference of the various retail formats.