Advertised Savings – Does the EU Price Indication Directive Make a Difference?

Jan Heinemann
University of Hamburg
Karen Gedenk
University of Hamburg

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Abstract

Retailers often advertise savings based on external reference prices (ERP) with messages like 'Was €54.99 – now only €44.99'. This is misleading for consumers if the advertised ERP does not reflect past prices well. Therefore, the EU passed a directive to combat fictitious pricing, that became effective in 2022. It specifies that retailers who advertise savings, have to use the lowest price of the past 30 days as the external reference price. While with this directive, some ERP frames are no longer allowed, retailers still have various options for presenting savings. We summarize these options and compare their effects in a survey-based experiment. We find that presenting the lowest price of the past 30 days in addition to a traditional ERP, e.g., 'Was €54.99 – now only €44.99, 30-day best price €34.99' does not significantly change category purchase incidence and brand choice compared to traditional savings frames. This suggests that retailers do not have to worry about their promotions becoming less effective. At the same time, the EU directive likely does not achieve its goal of consumer protection.

Subject Areas: *Advertising, Consumer Behaviour, Pricing, Promotion, Public Policy*

Track: Pricing & Promotions