

# The effects of non-binding retail-price recommendations on retailer and buyer behavior

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## Abstract

Non-binding retail price recommendations (RPRs) are suggestions of a manufacturer to a retailer, at which price a product should be sold to consumers. While standard theory considers RPRs as cheap talk having no effect, behaviorally they may indeed influence consumers' willingness to pay by setting an anchor or a reference point. Following this line of argumentation, consumers will be reluctant to pay a price higher than the recommended one. Furthermore, at a given price level consumers will demand a larger quantity the higher the RPR is. We find evidence for both effects. They are stronger when the price recommendation contains information about the value of the product to the consumer instead of providing an uncorrelated anchor only. Retailers in this study react to RPRs in a similar way as consumers do. However, they do not anticipate consumers' behavior well. In particular, they forego some profit by setting prices above the RPR, ignoring the excessive decline in demand.

*Keywords:* recommended retail price, buyer behavior, retailer behavior, experiment

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