

THE REDUCTION OF FINANCIAL WELL-BEING AS AN ANTECEDENT OF CONSUMER VALUE: IMPLICATION FOR LOW PRICE STRATEGIES IN TURBULENT ECONOMIES

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ABSTRACT

The objective of this research is to understand the origin and the consequences of low pricing in food sectors in times of economic crisis. Therefore, a qualitative approach is adopted because it helps us to better understand the complexity of pricing in this situation. We conducted 6 interviews with directors of supermarkets. Results show that the reduction of financial well being is the main antecedent of establishing low prices. Furthermore, low pricing strategy has an impact on the creation of value for consumer.

Keywords: Low Pricing Strategy, Turbulent Economy, Value, Reduction of Financial Well-Being.

INTRODUCTION

Researchers and marketers have developed a renewed interest in the adaptation of consumption in times of crisis. An economic crisis is usually defined as a variation of negative GDP between two or more consecutive quarters. The Tunisian economy is officially in crisis, national investment to GDP ratio is 19.5 percent in 2016 has continuously dropped from the year 2010 where it amounted to 24.6%, according to the National Office of statistics. The inflation rate for the month of August 2017 reached 5.7 percent against 5.6 percent as recorded the previous month. The rates achieved these past two months represent record rates which have not been achieved since 2013.

Indeed, the depreciation of dinar has a direct impact on local prices by increasing them, which leads to a decrease in the purchasing power of the Tunisian consumer. Ensuring the stability of prices is the responsibility of the Central Bank. In this way, the Monetary Authority would only affect the share of inflation whose origin is monetary which is due to inflation by demand (private and public consumption). The price increase in August 2017 is mainly due to the acceleration in the rate of change in food prices year-on-year (5.2% against 3.6% in July 2017), mainly including the increase in meat prices (4.7%) and vegetables (6.2%) according to the ONS.

Existing literature is rich in testimonies of consumers in the face of recession, highlighting a trend of consumers taking greater responsibility for their present and future economic security (Kamakura &, 2012; Xiao and O'Neill, 2016). The major economic crisis have long-term, sometimes permanent damage on the behavior of consumers and therefore on the marketing strategies (Deleersnyder et al., 2004). Sales of label products (Lamey, Deleersnyder, et al., 2007) and the market share of discount (Lamey, 2014) grocery retailers increases during economic depressions.

However, it is necessary to improve the understanding of the psychological mechanisms that explain why and how consumers adapt to such situations. For this we will try to understand separately the variables which are at the origin of the psychological construction

when making a purchase. Then, in the empirical part we shall explain these potential constructions in terms of relationships.

In this study, we focus on the perception of prices, which is a comparative process by which consumers are looking for low prices (Kukar-Kinney, Walters, & MacKenzie, 2007; Lichtenstein, Ridgway, & Netemeyer, 1993; Zielke & Komor, 2015). The price perception process is the focus of this study for two main reasons: (1) Consumers are more concerned about prices during a recession (Hampson & (Hampson & McGoldrick, 2013; Steenkamp & Maydeu - Olivares, 2015) and (2) price is a fundamental marketing concept, interest and relevance to a wide range of marketing audiences. This has prompted retailers to offer products at low prices again and again by highlighting the economic advantage of their offer. This positioning is still adopted by the majority of them, and is often reflected in their slogan.

Price is a variable that has been used to influence the behavior of the buyer. Managers continue to look for new strategies to manage the information signals, to create the most effective behavior change (promotions, fee offers,...). According to Scitovsky (1945) price was seen as an indicator of sacrifice for a purchase. This author was the first to suggest that buyers use prices as an index of sacrifice, but also as an indication of the quality of the product.

To account for the consumers purchasing behavior, quality and price have been the main criteria since the first studies in marketing (Parasurman et al., 1985; Zeithaml, 1989). Since the 1990s the behavior of consumers is better understood when it is parsed through the perceived value (Nilson, 1992; Jensen, 1996; Heskett, Sasser and Schlesinger, 1997). This concept of "perceived value" has turned out to be a key factor in the strategic management which fostered much research (Mizik and Jacobson, 2003; Spiteri and Dion, 2004). Slater (1997) observed that "*creating value for the customer must be the reason for the existence of the company and for its success. It is a strategic imperative in building and maintaining a competitive edge*" (Wang et al., 2004).

Moreover, the explosion in recent years of increasingly powerful tools for studying markets and scrutinizing consumers' reactions to any new pricing strategy certainly reinforces manufacturers and distributors in their concern to react rapidly (A Boutin 1995). Originally, the low price strategy was developed in food distribution, which consist to offer a reduced but high quality offer at a price fixed permanently at a very low level, thanks to a drastic reduction in costs (Lendrevie, Lévy and) Lindon, 2009). Indeed, in addition to the price down, supply should be simplified to the minimalist content (Coutelle-bonds and river, 2014).

In our research we are interested in the consequences of perceived low prices. In other words, we will try to see the impact of low pricing on the creation of value for the consumer. This value is considered as a trade-off between benefits and sacrifices. We will therefore first present the literature review on the antecedents and consequences of low pricing by the industrialists as well as the sacrifices by the consumer and the perceived benefits considered as components of the perceived value. In a second step, we will present the results of our qualitative study which will allow us to determine the possible relationships between the studied variables.

LITERATURE REVIEW

Low Pricing Strategy

Experts that have analyzed the perceived price process admit that this process takes place through a comparison between the displayed price (selling price) and the reference price (RP) which can be external or internal (used by the individual as a reference to assess price offer). The external RP, more frequently objective and exact, existing in their environment, comes from advertising or the observation of prices of other products at the point-of-sale

(Zollinger, 1993; DeSmet & Zollinger 1997). The internal RP, coming from the memory of the consumer PR, can take many forms: the expected price, the price paid previously, the fair price, the price recalled, the price expected, the reserve price, the price of a normal market, the highest price and the lowest price, and context prices (Hamelin, 2002 ; Zollinger, 2004). The perceived price process at the time of the purchase can be described according to Kalwani and Yim, 1992 or even Oubiña, 1997 as follows:

If the selling price of the brand is greater than the internal benchmark price, the sale price is perceived negatively by the consumer.

Conversely, if the product is sold at a price lower than what was expected to be paid, the sale price is perceived positively, thus increasing the consumer purchase intention.

The study of the perception price process is essential because the perceived price has major implications on the perceived value through the perceived benefits and sacrifices by the consumer. Indeed, according to Zeithaml (1988) consumers use clues to infer quality (perceived benefit). These signals are usually classified as intrinsic or extrinsic (Olson & Jacoby, 1972). The intrinsic clues involve the physical composition of the product (for example, the flavor and color), while extrinsic signals, usually controllable, indicate for example the price to pay. Most of the research on extrinsic evidence has focused on the price, the brand, the name of the store and the level of advertising (Dodds et al, 1991; Mazursky et al., Jacoby, 1985; Nelson, 1974 ; Rao et Monroe, 1989). However, the price/quality relationship remains higher even if it has been shown that the availability of other indicators generally reduces the price as a signal (Olson, 1977; Bonner & Nelson, 1985; Dodds et al, 1991). In the literature of marketing the work of Monroe & Krishnan (1985); Rao & Monroe (1989); Dodds, et al., (1991); Teas & Agarwal (2000); Dodds & College (2001) showed a positive effect of the perceived price on perceived quality.

On the other hand, a pricing strategy based on cuts has some disadvantages (Nagle and Holden, 1995). Blattberg & Neslin (1990) showed that discounts on prices improve the value of the product or service, but also have a negative influence on the perception of the offer by consumers, raising doubts about the quality of the product.

For producers, the strategy of the low price consists to carry out a systematic hunting of the superfluous costs in order to be able to reduce durably their prices. The strategy of distributors is to propose first prizes under their own brand (Boutin 1995).

To better understand the process of setting low prices by companies, IE antecedents and consequences, we were interested in the study of the consumer behavior. This analysis enabled us to appreciate its impact on the low pricing strategy of retailers.

Reduction of Financial Well-Being: An Antecedent to the Low Prices

During periods of crisis, most consumers adopt several simple and intuitive lifestyles that give priority to exercise greater financial caution (of & Kamakura, 2008; Hampson & McGoldrick, 2013; Kamakura &, 2012; Strutton & Lewin, 2012). Consumers purchase products with a price premium, such as discounted products (Bondy & Talwar, 2011), while increasing spending on private labels (Lamey et al. 2007) and attend more discount stores (Hampson & McGoldrick, 2013). Nonetheless, durable goods are mainly affected by economic constraints because these purchases put more performance and financial risks and are easier to recover compared to the more usual items. (Deleersnyder et al., 2004). Researchers have highlighted various factors of financial stress affecting adaptations of recessions consumers, including: a decline in confidence of consumers (Hampson & McGoldrick, 2013), financial insecurity (Zurawicki &) Braidot, 2005); and consumption budgets (of & Kamakura, 2008). However, even consumers who do not face financial difficulties during these periods are cutting on their spendings (Deleersnyder et al., 2004). According to the theory of relative consumption, as many consumers are forced to save

money during times of economic uncertainty, the level of expenditures necessary to signaling social status decreased as that total consumption is reduced (Kamakura & Du, 2012).

In our study we look at the perceived price considered as an extrinsic signal having an impact on the perceived value through the perceived quality and sacrifices.

Value Creation: A Trade Off Between Perceived Benefits and Sacrifices

There are two traditional approaches to value; one is based on the purchase value and the other on the consumption value. The consumption value corresponds to a disciplinary field dedicated to the empirical studies (Holbrook & Hirschmann, 1982). Holbrook (1994) defined it as 'a relative preference, characterizing the experience of interaction between a subject and an object'. The purchase value fits about it in a rational, transactional and utilitarian vision resulting from an algebraic calculation, and resides in the object or the attributes of the product (Razak et al., 2004). This calculation varies from one author to another and can have the form of a ratio (Monroe et Krishnan, 1985), a subtraction (perceived benefits - perceived costs (Day, 2002) or a computation called "*compromise*" (Zeithaml, 1988) between the sacrifices and benefits of a product. Cova and Rémy (2009) described this approach as a "*check-list*" where the attainment of different perceived benefit and sacrifice seems difficult (Marteaux & Mencarelli, 2005).

Then a new mixed approach emerged combining the two previous approaches and called 'mixed approach '. According to Rivière (2015), there are three main approaches to this estimate of value: the approach of Aurier and al. (2004) with an approach to the overall value by the value of consumption components; Lai's approach (1995), based on the work of Sheth et al. (1991) with a "*comprehensive*" approach to the sources of value; and finally, the approach of Amraoui based on the work of Sweeney & Soutar (2001) by apprehending the value according to a multidimensional vision.

Our current research is based on the mixed approach of value taking into account its wealth. Indeed, this approach has the specificity of: (1) taking into account both utilities elements (cognitive process) and hedonic elements (emotional process) in the assessment of value (Amraoui, 2005); (2) grasping the value of the product in the phase before or after the purchase or consumption experience; and finally (3) the value is considered as a trade-off between the perceived sacrifices and benefits (Rivière, 2009).

Studies on mixed or traditional approaches have focused on the identification of the components of the consumption value without asking questions about their antecedents and their consequences. To do this, Rivière (2015) identifies two major antecedents of the purchase value: perceived quality and the perceived sacrifices. Indeed, the perceived quality, has a positive influence, and the perceived sacrifices has a negative influence on the perceived value of the product (Monroe et Krishnan, 1985; Zeithaml, 1988).

Through our study on the approaches of value, we aim to better understand the origin of the low pricing strategy. Indeed, a low price is considered as an economic benefit (a component of the value created for the customer).

METHODOLOGY

The objective of this research is to understand the origin of the low pricing in the companies of food in times of economic crisis. Therefore a qualitative approach is adopted because it helps us to better understand the complexity of pricing in this situation.

Crisis Context

Inflation reached 5.7% in August 2017, the highest rate since 2015 (ONS, 2017). On the other hand, this inflation is mainly due to the increase in food and drink prices of 5.2%. This increase is due in particular to the increase in the price of edible oils by 17.5%, fish by 6.3%, meat by 4.7% and milk, cheese and eggs by 2.7%. Beverage prices also rose 6% on the back of higher prices for mineral water, soft drinks and fruit juices by 7.1% and prices for coffee and tea by 3.5%.

The consumer price index increased by 0.3%, in August 2017, compared to July 2017, mainly due to the significant increase in prices of the food and drink group of 1.7% which is mainly due to the increase in the prices of poultry, vegetables and fresh fruit.

Data Collection: Expert Interviews on Distribution

In order to study the low pricing in a crisis situation, it was necessary to take into consideration the opinion of experts in the field of distribution (Directors sign, Director of purchase... different signs on the Tunisian market). According to the literature, interviewing experts permits to anticipate the behavior of the consumers, but also to understand the stakes of the ongoing changes. Our sample consists of 6 cases of distribution experts who were interviewed at their place of work. The interviews have been conducted using a semi-directive interview guide, centered around the 3 axes of consumption: price, quality and value. The cases were selected considering different signs on the market : Géant , Carrefour, Monoprix, Magasin Général et Aziza (see Annexe). The analysis of these interviews represents diversity in the sector of the distribution activity and match brands whose performance on the market offers the guarantees on the relevance of the choices they have made.

Data analysis Procedure: a Thematic Content Analysis

The analysis of data has been respecting the approach that characterizes the analysis of thematic content (Kolbe and Burnett, 1991; Miles and Huberman, 2003). The research team first made a descriptive encoding of the data. The topics covered in the interview dealt with the comprehension of the price-fixing process through the usual attendance of the store and its motivations, the consumer choice criteria, the value derived from the purchase act in these signs, and the changes in behavior and attitudes in their final choice.

RESULTS

The connection between the different themes in our analysis led us to identify three relationships between the variables involved in this work: (1) the relationship between price and quality, (2) the relationship between price and overall value and, finally, (3) the relationship between the price and the decline of financial well-being.

Price and Quality

The first relationship mentioned by respondents is between price and quality. However, opinions are divided about the existence of this relationship. The value does not exist according to four out of six respondents. The only criterion of choice is low price: "*there is no longer the price/quality ratio for 3, 4 years we no longer talk about this notion. Actually this notion was useful to make comparisons between a sign and another. Now new consumers you can put on display anything you want, but at low price.*" (interview 1). Customers seek at all costs to pay less by finding the special offers made by stores or by targeting low-cost products prize: "*It's the low price that brings us our customers'*" (interview 3).

As a result, the store managers try to set up a merchandising technique adapted to the expectations of their customers: *"the place of the products in the store is based on their prices. From the least expensive to the most expensive even if the quantities are different, we have special offers each week from Tuesday to Wednesday since it was found that the customer does not look for quality but rather for low prices"* (interview 6). These new store display strategies adapt to the new trends in consumer buying behavior : *'the new trend of customers, their cart is composed only of discounted products, this kind of consumers are no longer looking for quality.'*(interview 5).

On the other hand, the discourse of the other two respondents (interview 2 and 4) is based on the existence of a link between the price and the quality of the product. This link is explained by the impact of a low price on purchase intent through the quality. In other words, respondents think that consumers are ready to buy a good quality product at a low price. Good quality is here associated with a brand known by consumers for its quality: *"quality, price and brand are related, for example, pasta may be of an unknown brand but that doesn't mean that they are of very good quality."* (interview 2). To do this, one of the respondents reclaims have changed the brand name of a product into a private label. This brand is considered to be of good quality by the Tunisian consumer. This change allowed stores to increase their sales: *"there are products that did not even sell before because they are of poor quality in terms of ingredients used and now they are sold under a private label and we saw their sales take off"* (interview 4).

In order to meet the expectations of consumers in terms of lower prices, retailers tend to highlight promotions on products. They were sometimes moved to multiply private label products.

The Reduction of Financial Well-Being as Antecedent to the Low Price

The second issue raised by the respondents concerns the reduction of the consumers' financial well-being. It is considered as an antecedent on the one hand to the setting of low prices and on the other hand to the consumer's willingness to pay less and therefore to seek the lowest prices on the market: *"The problem that is at the origin of our strategy of low prices is the decline in the purchasing power of the Tunisian people, hence a disruption of the financial balance of the Tunisian home. Our hard discount sign comes in time we are like a balloon of oxygen in the distribution market."* (Interview 5). The economic crisis is affecting most people on the Tunisian market. There is inflation coupled with a static salary level. The purchasing power is so increasingly declining. This led to the frenzy to buy at the lowest price: *"people complain about prices, if you look at the evolution of prices compared to the salaries of the people, the gap is widening."* (Interview 3). Decline in financial well-being became the major antecedent of low price research: *"the main reason why people search for lower prices is obviously their lower purchasing power."* (interview 4). There is obviously a usual change in the consumer behavior in the sense where they used to buy their groceries regardless of price. Nowadays, customers tend to do their everyday shopping by choosing less expensive products and looking for special offers fitting within their fixed budget: *"we notice a huge drop in the level of the cart. Before people used to store goods at home now it is no longer done."* (interview 1). This is true for almost all social classes: *"This year the level of household carts has even declined even in the upscale neighborhoods stores. This was deduced by analyzing these trends in terms of turnover and number of customers"* (interview 2). Because of this, the major antecedent of the low pricing is the reduction of financial wellbeing of consumers which is a result of the financial crisis.

The Impact of Low Price on Customer Value

The third relationship considered as important by the respondents is the link between the price and value considered as a sacrifice / benefit ratio. Value is therefore a consequence of the perceived price of the product considered here as profit. The sacrifices received are compensated by this type of benefit. Consumers are willing to make sacrifices related to time and displacement in order to profit from an economic benefit (low price): *"The customer ticks in the catalogs the discounted articles he is going to buy. Indeed, people are posing at home, they are fingering the catalogs looking for all the signs and they are comparing, I select this article from this sign, this other article from the other ... well it is true that there is reasoning in relation to that it will consume petrol and it should be compared to the cost of a drive but this is not really perceived by this category of customers"*(interview 4). Consumers are around the shops and spend more and more time comparing prices in the catalogues issued by the various shops. They choose special offers on the market. Their only concern is to save money: *"the customer will bring you the catalogs of the other brands on which he ticks what he plans to buy, only the special offers "*(interview 1). They do not take into account travel costs (monetary sacrifice) or the effort (non-monetary sacrifice). They may very well ride to a store by buying very little products or better yet without buying anything if they can't find the articles that they have selected in catalogs: *"customer comes to buy the cheapest product that he finds in the catalogues and leaves without buying anything else even a bottle of shampoo and he will have finished his shopping"* (interview 2). On the other hand, consumers may need to buy a large quantity of products that are on sale. The impact of buying in large quantities has been neglected by researchers. This type of purchase will usually lead to waste that can be translated into monetary and non-monetary sacrifices linked to the social aspect of sustainable development (more waste in nature, selfish behavior,...): *"the client does not seek fixed prices. but rather special offers . The permanent price is deemed to be expensive so if he finds a special offer he buys the product even in large quantities to avoid the increase in prices"* (interview 3). The value is therefore here related only to the perceived low price considered as a perceived benefit. The value considered as a benefit/sacrifice ratio is not valid for our study: *"low price is the only criterion on which the consumer relies for his daily food purchases."* (interview 5). Interviewees noted consumer ignorance about sacrifices related to travel and time spent shopping. Which leads them to set up promotions and catalogs more attractive than the competition.

DISCUSSION AND CONCLUSION

Our results contribute to the literature on marketing at two theoretical levels: (1) understanding the price perception process in a turbulent environment (financial crisis) and determining the main cause in the search for lower prices, and (2) the apprehension of the process of creating value for the consumer.

Our research contributes to the understanding of the price perception process, specifically, in the low price search stage. We were able to identify the key factor behind this excessive search for the cheapest prices on the market. It is the decline in the financial well-being of the Tunisian consumer felt after the financial crisis. In recent years, there have been several factors affecting consumers, including unemployment, reduced consumption budgets and financial insecurity (Sharma & Age, 2012). A decline in financial well-being is associated with negative consequences, such as financial deprivation (Sharma & Alter, 2012). This will likely lead to changes in consumption patterns (spending). People have become increasingly fearful and take such protective measures (Brennan & Binney, 2010). They are adopting a price conscious mindset to alleviate stress and the negative consequences associated with this financial fear. Consumer price consciousness allows consumers to reduce their spending (Tokuoka, 2013) the industrialists should emphasize the valuation of their promotional offers.

Our research provides a theoretical contribution to the literature on the value created for the consumer. The marketing literature focused on the components and determinants of the global value without taking into account the effect of low price strategy on this variable. Researchers have emphasized the role of motivations related to extrinsic and intrinsic attributes. They also highlighted the influence of contextual variables (mass customization, innovation, ...). Most perceived value studies have shown that it is the result of a benefit / sacrifice ratio. Our results show that in a crisis situation this ratio is non-existent and that the only benefit perceived by the consumer is price (economic benefit). This result shows that the components and determinants of perceived value are no longer the same in a financial crisis.

Research Perspectives

In our research, we have highlighted the reduction of the financial well-being as the main cause of the establishment of low pricing strategy. However, there are many antecedents to this variable that we have indeed identified in the results of our qualitative study. For example, the knowledge of prices (consumer price consciousness), which is a commercial research opportunity (index measure for the monitoring of the level of knowledge of the consumer). Trust is considered to act as a moderator on the relationship between the price of the product and its perceived value. This concept was mentioned several times in interviews. Further study would be useful to understand how the economy, strategies and actions influence regulators of prices, but also their impact on consumers.

This work, which includes immersion in the distribution sector, observations as well as a qualitative analysis with distributors allows us to propose strategic axes for distribution managers and brands. From the acceleration and shifts and divergence in cohort behavior, the implications for retailers are revisit assortments and product / price architectures, invest in own brand and future proof online (economics , capacity). For the supply chain, we suggest more resilient local and flexible: invest in differentiation, experiment with new business modes (be your own disruptor) and make different efficiency / safe (trade off).

Having shown in this study, the components of the value of a low price offer, a quantitative research seems necessary in order to assess the importance of each of them. In particular, besides the traditional and potentially dominant dimensions of value (functional and economic dimensions), it seems essential to question the weight of the other facets in shaping the valuation of this type of offer (Coutelle et Riviere 2014).

We propose to study more in depth the increased importance of value : heightened price sensitivity, the managers should be re-invent media mix (assets, personalization, flexibility, channels). For Tunisian markets and emergent economies we must renew commercial and route-to market models, reduced salesforce, new contact models and trying partnerships with new African platforms with distribution and logistics that can efficiently deliver.

Search Limits

Despite these contributions, this research is not without limits. In spite of the efforts of researchers to implement a methodology of quality, the results would be more enlightening if we could ask more experts. The choice of experts is in itself a limit because of their availability and retention of information on the reality of the regulation of prices. Also, an exploratory study among consumers would be more interesting in order to meet our objectives of research and to provide a better understanding of the process of perception of low prices and its effect on the perceived value of the product. Finally, our research has been conducted in a specific economic context, that of Tunisia. Thus, it would be interesting to carry out this search in other economic contexts.

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APPENDIX 1				
	Age	Profession	Sign	Remarque
Interview 1	45 years	Supermarket director	Magasin général	20 years of experience in hypermarket distribution
Interview 2	42 years	Supermarket director	Carrefour Market	15 years of experience in hypermarket distribution
Interview 3	31 years	purchase director	Monoprix	
Interview 4	50 years	purchase director	Géant	
Interview 5	48 years	marketing director	Aziza	First sign of hard discount in Tunisia
Interview 6	32 years	Supermarket director	Aziza	