

The Impact Of Wholesale Pricing Strategies On The Implementation Of Price Conformance Guarantees By Retailers: A Qualitative Review From A Supply Chain Perspective

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Abstract. *This study examines the impact of wholesale pricing strategies on the implementation of Price Matching Guarantees (PMGs) by retailers within the supply chain context. While PMGs serve as tools to enhance consumer attraction and loyalty, their implementation is influenced by the pricing policies set by manufacturers. Through an in-depth literature review, this research finds that discriminatory wholesale pricing strategies hinder retailers from offering PMGs, negatively affecting consumer satisfaction and market competitiveness. Conversely, when wholesale pricing is uniform, PMGs can function more effectively, even if manufacturers oppose such practices. This study suggests the need for increased transparency and collaboration between manufacturers and retailers to create a fairer and more sustainable market environment. The findings provide insights for policymakers to formulate regulations that support more ethical pricing practices and for retailers to optimize their pricing strategies to meet consumer expectations.*

Keywords: Pricing Strategies, Price Matching Guarantees (PMG), Retailers, Supply Chain Wholesale Pricing.

1. INTRODUCTION

In practice, many retailers apply price-matching guarantees (PMGs) as a commitment to match the prices of identical products in competing outlets. This strategy has been adopted in various industry sectors, including electronics, home appliances, and packaged products, where major retailers such as Walmart, Target, and Best Buy are widely known for offering PMGs. According to the Dealerscope (2023) report, 20 of the top 25 retailers and 35 of the top 50 retailers in the United States and Canada (excluding wholesale clubs) implement PMGs in their practices. With the development of technology, consumers are now also leveraging mobile apps to enhance their shopping experience, with more than half of consumers using mobile devices to search for price information and simplify the process of requesting price matches (Yes Marketing, 2019).

Although the relationship between retailers and producers is very deep, the existing literature mostly only discusses PMGs implemented by retailers without considering the influence of wholesale pricing strategies from manufacturers. Recent research conducted by Nalca and Cai (2023) proposes a supply chain model consisting of one producer and two retailers, with the aim of examining the impact of wholesale pricing—whether uniform or discriminatory—on supply chain members and consumers when retailers have the option to implement PMGs. discriminatory, even if the offer is in line with the manufacturer's

preferences. In contrast, in the context of uniform wholesale pricing, PMGs can thrive in a balanced state, even if manufacturers reject the practice, as long as the degree of asymmetry of demand or cost between retailers and the average cost of complexity remains relatively low.

The presence of PMGs within the market can facilitate tacit collusion among retailers, which in turn can lead to an increase in retail selling prices. However, in situations where producers allow wholesale price discrimination, PMGs are not always accepted at the equilibrium point. For example, when retailer A offers PMG but the manufacturer charges a higher wholesale price, retailer B may set a lower retail price. This situation causes retailer A to adjust its prices to remain competitive, thus creating instability in the implementation of PMGs. This finding opens an important dialogue for policymakers regarding the validity of wholesale pricing regulations when PMGs are implemented.

Studies on PMGs also show that, while PMGs offerings can benefit more efficient retailers, the implementation of uniform wholesale prices can be detrimental to supply chain profits, consumer well-being, and overall social well-being. The decline in welfare due to uniform wholesale pricing persists despite the cost of complexity associated with price matching. This points to the need for further research on the impact of wholesale price regulation on the practice of PMGs, with a focus on the interaction between producers and retailers in the context of the broader supply chain.

A number of previous studies have highlighted various aspects of PMGs and price discrimination, including the impact on the entry of competitors into the market (Arbatskaya, 2001), the role of brand image in consumer evaluation of PMGs (Biswas et al., 2002), and the influence of retail activity on supply chain efficiency (Brunner, 2013). However, there is a gap in the literature that connects these two pricing strategies, namely wholesale price discrimination and PMGs. Nalca and Cai (2023) provide a new perspective by showing that when PMGs are implemented, the influence of wholesale price regulation can be reversed, where uniform wholesale pricing that was previously beneficial to consumer welfare can become detrimental in the context of the implementation of PMGs.

Thus, this study aims to provide a qualitative review of the impact of wholesale pricing strategies on the implementation of PMGs by retailers. The focus of the research will be based on supply chain models and observe the complex interactions between producers and retailers in determining price policies, as well as the implications of these decisions on consumer well-being and overall supply chain profitability.

2. LITERATURE REVIEW

Price-matching guarantees. Price conformance guarantee (PMG) is a strategy implemented by retailers to increase consumer appeal by promising to match the prices of identical products offered by competitors. According to Biswas et al. (2002), PMGs not only improve the retailer's brand image but also create a higher perception of value among consumers. The implementation of PMGs allows retailers to compete more effectively in an increasingly competitive environment, especially in the consumer goods sector such as electronics and home appliances (Nalca & Cai, 2023).

A study by Arbatskaya (2004) highlights that PMGs can serve as a tool to prevent the entry of new competitors into the market by lowering the potential profits that can be obtained by competitors. In this context, the application of PMGs by retailers can create a more stable market environment and reduce price volatility. On the other hand, research by Arbatskaya et al. (2004) shows that the presence of PMGs can affect the overall market price, often by increasing the retail price offered by the retailer in question.

The Impact of Wholesale Pricing Strategies. Wholesale pricing, both in the form of uniform and discriminatory pricing, has a significant impact on supply chain dynamics. According to Nalca and Cai (2023), when manufacturers have the freedom to set wholesale prices discriminatory, retailers are less likely to offer PMGs due to the risk of losing competitiveness in the market. Thus, the wholesale price decision is crucial in determining whether PMGs will be applied by retailers. This research is in line with the findings of Cai et al. (2012) who stated that an effective wholesale pricing strategy must consider its impact on retailers' pricing decisions and consumer preferences.

Furthermore, research by Arya and Mittendorf (2010) shows that wholesale price discrimination can worsen social welfare, as it allows producers to exploit efficiency differences between retailers. The application of uniform wholesale prices, on the other hand, can improve consumer welfare by reducing price injustices that may occur as a result of discriminatory practices (Baye & Kovenock, 1994).

Interactions between Wholesale Pricing and PMGs. Interactions between wholesale pricing and PMGs have complex implications in the context of supply chains. Nalca and Cai (2023) found that PMGs can facilitate tacit collusion between retailers operating within an oligopolistic market structure, which often leads to an increase in retail prices. The study also notes that when manufacturers implement discriminatory wholesale prices, more efficient retailers are less likely to offer PMGs to avoid losses due to adverse pricing strategies.

Based on research by Shang and Cai (2022), there is an imbalance in price decisions between producers and retailers that can affect the offering of PMGs. In the model they developed, when uniform wholesale prices are applied, PMGs can develop well, which shows that wholesale pricing and PMG policies influence each other in determining the final price paid by consumers.

The Impact of PMGs on Consumer Welfare. Consumer well-being is often the main focus when analyzing the impact of PMGs. Research by Brunner (2013) confirms that the existence of PMGs can improve consumer well-being by providing assurance that they will not overpay for the same product. However, the negative effects of the implementation of PMGs can arise when wholesale prices are not properly regulated, which can result in lost profits for retailers and producers, as well as reduce overall social welfare (Nalca & Cai, 2023).

While there has been progress in understanding the interaction between wholesale pricing and PMGs, there are still many gaps that need to be further researched. Current research often focuses on one side—either from the perspective of a retailer or a manufacturer—without considering the synergistic impact between the two strategies. More in-depth research on how PMGs can be applied in a variety of different market contexts and how wholesale pricing strategies can be tailored to support the implementation of PMGs will be invaluable to this literature (Arya & Mittendorf, 2010).

3. METHODOLOGY

The qualitative research methodology of this review literature aims to analyze and understand the impact of wholesale pricing strategies on the implementation of price conformity guarantees (PMG) by retailers from a supply chain perspective. This research relies on the collection and analysis of relevant literature to generate in-depth insights into the interaction between wholesale prices and PMGs.

This study uses a qualitative approach through the literature review method. According to Kitchenham and Charters (2007), literature review is a systematic method of identifying, evaluating, and interpreting relevant research to provide answers to research questions. Through this approach, researchers will explore various literature that discusses PMGs and wholesale pricing strategies, both from a theoretical and empirical perspective.

The main data sources used in this study are journal articles, books, and recent research reports published in the last five years. Research by Moher et al. (2015) emphasizes the importance of choosing credible and up-to-date sources in conducting literature reviews

to ensure the relevance and validity of information. Sources sought include leading academic journals, such as *Production and Operations Management*, *The Journal of Industrial Economics*, and *Marketing Science*.

The inclusion criteria for selecting literature include studies that directly address PMGs, wholesale pricing strategies, and interactions in the context of supply chains. Conversely, literature that does not focus on the topic or that does not have clear empirical data will be excluded from the analysis. This process is in line with the guidelines provided by Gough, Oliver, and Thomas (2012) regarding the selection of relevant literature.

Data collection is carried out through several stages. First, researchers conducted an academic database search using keywords such as "price conformance guarantee," "wholesale pricing strategy," and "supply chain." Second, after obtaining a number of articles, the researcher reviews the abstract to ensure relevance to the focus of the research. Third, the researcher categorized the selected literature based on themes, namely wholesale pricing strategies, the impact of PMGs, and interactions in the supply chain, in accordance with the methodology proposed by Tranfield, Denyer, and Smart (2003).

Data analysis was carried out with a thematic approach, in which researchers identified patterns and themes that emerged from the literature that had been collected. This approach allows researchers to highlight the relationship between wholesale prices and the application of PMGs in the context of the supply chain. According to Braun and Clarke (2006), thematic analysis is an effective method to explore and understand the meaning behind qualitative data generated from literature.

The validity and reliability of this research are guaranteed by triangulation of data. This includes the use of various literature sources and analytical methods to verify the findings obtained. In the literature review, triangulation helps to reinforce the conclusions drawn and ensures that the analysis includes a comprehensive perspective (Denzin, 1978).

Through this methodology, the research aims to contribute to a better understanding of the impact of wholesale pricing strategies on the implementation of PMGs by retailers. The results of the research are expected to provide valuable insights for stakeholders in managing pricing strategies and improving consumer welfare.

4. RESULTS

The study reveals that wholesale pricing strategies play a crucial role in determining price dynamics at the retailer level. Discriminatory wholesale pricing, where manufacturers provide different prices to different retailers, can hinder retailers' application of price conformance guarantees (PMGs). According to Nalca and Cai (2023), when producers have the freedom to apply prices different wholesalers, retailers tend to be reluctant to offer PMG, because this will trigger unfair price competition between them. This is in line with previous findings suggesting that price discrimination can reduce retailers' incentives to compete on price (Arbatskaya, Hviid, & Shaffer, 2004).

PMG is recognized as an effective tool to increase retailers' attractiveness in the eyes of consumers. Retailers offering PMG are committed to matching the price of the same product across competitors, which in turn can increase sales and customer loyalty. However, the existence of PMG can also potentially harm retailers in the context of a discriminatory wholesale pricing strategy. According to research by Biswas et al. (2002), consumers tend to prefer retailers that offer PMG, but this can create pressure on retailers to lower their prices to match competitors' prices. As a result, retailers using PMG can risk hurting their profitability, especially if they don't have enough bargaining power against manufacturers.

In the context of the relationship between producers and retailers, this study shows that the existence of price discrimination at the wholesale level can lead to imbalances in supply chain relationships. When manufacturers set higher wholesale prices for one retailer and lower for another, this creates injustice and dissatisfaction among retailers. This is illustrated in a study by Arya and Mittendorf (2010), which found that price discrimination at the wholesale level can encourage conflict between producers and retailers, as well as worsen cooperation in the supply chain.

From the consumer's point of view, PMG can create a sense of fairness and transparency in transactions. Consumers tend to feel safer when shopping at retailers that offer PMG, because they are confident they will not pay more for the same product. However, with discriminatory wholesale prices, consumers can experience unexpected price increases if retailers are unable to offer competitive prices. This shows that wholesale pricing strategies can have a direct impact on consumer experience and satisfaction, as shown by research by DeGraba (1990) which states that price discrimination is often detrimental to consumers.

The study also provides important implications for policymakers and supply chain managers. In the context of wholesale price regulation, policies prohibiting price

discrimination may be necessary to encourage fairer competition and increase the adoption of PMG by retailers. Regulators need to understand that PMG can provide benefits to all parties, including producers, retailers, and consumers, especially in an environment supported by transparent and fair wholesale prices (Katz, 1987).

The results show that there is a complex interaction between wholesale pricing strategies and the implementation of PMG by retailers. Retailers tend to be reluctant to offer PMGs in situations where manufacturers implement discriminatory wholesale pricing strategies. Therefore, it is important for retailers to carefully consider their pricing strategies, as well as examine how PMG can be effectively applied in the context of wholesale pricing. Furthermore, more research is needed to explore how variations in pricing strategies can affect supply chain dynamics and overall consumer satisfaction.

5. DISCUSSION

Wholesale pricing strategies and retailers' implementation of Price Conformance Guarantees (PMGs) are two important elements in the dynamics of the retail market. This research provides in-depth insights into how these two elements influence each other, as well as their impact on the relationship between producers and retailers, as well as between retailers and consumers. In this section, the discussion will review the findings of this study by referring to the existing literature, and provide a comparison with the results of relevant previous research.

The results of the study show that discriminatory wholesale pricing strategies can hinder the implementation of PMG by retailers. Research by Nalca and Cai (2023) supports these findings, by showing that different wholesale prices for different retailers create price uncertainty that can make retailers hesitant to offer PMG. This is in line with the results of a study by Wu and Wang (2020), which found that when manufacturers implement inconsistent wholesale prices, retailers have difficulty in strategizing competitive prices.

Furthermore, these findings are also in line with research conducted by Liu and Chao (2021), which stated that retailers tend to avoid PMGs in situations where they feel incapable of competing with prices set by competitors. Price uncertainty caused by wholesale pricing policies can encourage retailers not to offer PMG, in order to maintain their profitability (Cai, Dai, & Zhou, 2012).

PMG serves as a tool to attract consumers by offering price guarantees. Research by Biswas et al. (2002) shows that consumers tend to prefer retailers that offer PMG, which

can increase customer loyalty and sales. However, the study also underscores that when wholesale prices are discriminatory, the implementation of PMG can be a burden for retailers, who may be forced to lower prices to match competitors' prices (González-Benito, 2010).

The results of this study show that although PMG can increase the competitiveness of retailers, the risks faced in the context of discriminatory wholesale prices make the implementation of PMG complicated. This is in line with the results of research by Arya and Mittendorf (2010), who noted that the inconsistent pricing strategy of manufacturers can lower retailers' profits, so they are less committed to offering PMG.

From a consumer perspective, PMG creates a sense of fairness and transparency. However, price discrimination at the wholesale level can cause consumers to experience dissatisfaction if the price they pay exceeds that offered by competitors (DeGraba, 1990). Research by Heidhues and Kvasov (2015) supports these findings by showing that consumers tend to negatively rate retailers who are unable to offer competitive prices, especially when PMG is ignored.

On the other hand, research by Cohen and Wada (2018) shows that consumers are more likely to be loyal to retailers that offer PMG, even in non-competitive pricing situations. Nonetheless, in the context of discriminatory wholesale prices, consumers may feel trapped in a dilemma between choosing a lower price than a competitor or staying loyal to retailers offering PMG. This highlights the complexity of the relationship between wholesale pricing strategies, PMG, and consumer satisfaction.

This research shows that there is a need for retailers to consider their pricing strategies more carefully. In the context of discriminatory wholesale prices, retailers may need to look for ways to increase their bargaining power against manufacturers. Findings from research by Slade (2004) show that when retailers have greater bargaining power, they are better able to offer PMG without harming their profit margins.

In addition, research by Zettelmeyer, Morton, and Silva-Risso (2006) highlights the importance of collaboration between manufacturers and retailers in determining more transparent pricing strategies. Closer cooperation can help narrow the information gap between the two parties, thereby minimizing the negative impact of wholesale price discrimination on the implementation of PMG.

In the context of policy, this study emphasizes the importance of regulations that support wholesale price transparency. When governments or regulatory agencies enact policies that limit price discrimination, this can encourage the adoption of PMG by retailers

and increase consumer confidence (Katz, 1987). Research by Corts (2000) shows that fair price policies can increase competitiveness in the retail market, which in turn can improve consumer welfare.

However, this requires a careful approach, given that not all forms of price discrimination have a negative impact. Research by Hviid and Schwartz (2000) notes that in some cases, price discrimination can create incentives for manufacturers to improve product quality, which can provide benefits to consumers in the long run.

Overall, the results of this study show that there is a complex interaction between wholesale pricing strategies and the implementation of PMG by retailers. Retailers tend to be reluctant to offer PMGs in situations where manufacturers implement discriminatory wholesale pricing strategies. These findings provide a solid basis for further research to explore these dynamics more deeply, including aspects such as the influence of culture and consumer psychology on purchasing decisions.

Recommendations for further research include further analysis of how variations in pricing strategies can affect consumer behavior, as well as comparisons between different product types and market categories. More comprehensive research on how retailers can adjust their strategies in the face of wholesale pricing policies is also urgently needed.

6. CONCLUSION

This study explores the impact of wholesale pricing strategies on retailers' implementation of Price Conformance Guarantees (PMG), as well as the interaction between the two from a supply chain perspective. The findings suggest that discriminatory wholesale pricing strategies can hinder retailers from implementing PMGs, which in turn affects competitiveness and consumer satisfaction. In this context, although PMG serves as a tool to attract consumers, the uncertainty caused by inconsistent wholesale prices causes retailers to be hesitant to offer PMG broadly.

From the analysis carried out, it can be seen that the relationship between producers and retailers needs to be improved through transparency and cooperation in pricing. Government involvement in regulating price policy is also an important aspect to encourage fair practices in the market. The research suggests that retailers need to be more proactive in dealing with wholesale pricing policies to ensure that they can stay competitive and meet consumer expectations.

7. LIMITATION

While this study provides significant insights, there are some limitations that need to be noted: **Limitations of the Literature:** This research relies on the availability and relevance of existing literature. Some studies may not cover all relevant or current aspects in the context of wholesale prices and PMG.

Generalizability: These findings may not be fully generalizable to all sectors or types of products. Various factors, such as the type of industry and the characteristics of the local market, can affect the dynamics between wholesale prices and PMG.

Qualitative Approach: Given that the approach used is qualitative, the results obtained are descriptive and cannot be used to make quantitative predictions. Further research with quantitative methodologies may be needed to test and strengthen these findings.

Temporal Context: Market dynamics can change over time, and the study only reflects the circumstances at the time the data was taken. Changes in government policies, consumer behavior, or pricing strategies by producers can affect the relevance of future results.

Focus on Retailers: This research focuses more on the retailer's perspective and may not fully cover the perspective of the consumer or manufacturer. More comprehensive research involving all stakeholders in the supply chain will provide a more holistic picture.

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