Annexe I

Ranking of pricing practices
Ranking of price frames most likely to mislead

I.1 Our research into price framing has allowed us to conclude a loose ranking of the likelihood of each practice to mislead. Used on its own this ranking does not form the basis for the OFT’s enforcement priorities – we would not prioritise an advert for enforcement action because it was potentially misleading we would also look to see whether the advert was likely to lead to actual consumer harm. So this ranking is just the first step in our prioritisation framework.

I.2 The ranking is necessarily a loose one. It is designed to focus attention on those practices that need to be handled most carefully and that are associated with the highest levels of financial and emotional detriment.

I.3 The ranking from the experimental research is as follows:

- partitioned (drip) pricing
- time limited offers
- baiting sales
- reference pricing
- volume offers.

I.4 Note that the experimental research did not look at complex offers or free offers.

I.5 However, experimental work of this kind, while precise, is necessarily limited by the design of the experiment and the confines of the laboratory conditions under which it operates.

I.6 To balance this approach we have therefore considered the wider body of behavioural psychology evidence set out in the literature review prepared by MountainView Learning (see Annexe F). Our interpretation of this is that the wider literature lends support to a conclusion that, very generally, partitioned pricing has the greatest potential to mislead. Moreover, we also think the literature review
broadly supports a finding that volume offers have the least potential to mislead in the context in which they are most often encountered (that is, frequently purchased low value items). This of course is not to say that volume offers cannot mislead; they can mislead and they can lead to harm.

I.7 While, in our view, the literature review doesn't give much support one way or another for a ranking of baiting sales, time limited offers and reference pricing we draw a direct link between the consumers' ability to independently verify an offer and the potential of the offer to mislead. Put simply, offers that can be independently verified quickly and easily are less likely to mislead consumers who seek out verification.

I.8 In this context it is notable that baiting sales and time limited offers cannot be verified independently whereas in many circumstances a reference price can. A consumer may be able to verify whether a particular reference price for a product bears any relation to other traders' selling price for the product by shopping around (this is not universally true but it will hold in many circumstances). Time limited offers, however, can only be verified after the sale is claimed to end by which time, if the claim is genuine, the consumer has missed out. Similarly, baiting sales can only be verified by attempting to obtain the deal from the supplier: a consumer cannot (at least in most circumstances) find out in advance whether stock will be available.

I.9 Our consumer survey does not provide any direct support for this ranking. The nature of the consumer survey – which relies on indirect evidence from consumers - cannot be reduced to a single quantifiable measure of how misleading a given price frame is. However, the results of the consumer survey do not contradict the ranking. Notably, when consumers were asked whether they would do anything differently if they encountered a similar offer again, the proportion of consumers saying that they would do something differently produces the following ranking (highest proportion first):

- partitioned pricing
• baiting sales
• complex offers
• reference pricing
• time limited offers
• volume offers.

I.10 This is very similar to the ranking from the behavioural experiment (note that the behavioural experiment did not consider complex offers). The main difference is the lower ranking of time limited offers. This may reflect that we anticipate that consumers will have a less accurate recall of whether a time limited offer was genuine as it impossible to verify in advance and difficult to verify after the event (unless the consumer happens to visit the store in the days after the sale was claimed to end). In any event, it is indicative of the ranking rather than determinative.

I.11 On the basis of this analysis we think it is reasonable to conclude a loose ranking of the potential of a price frame to cause harm as set out in the Introduction. It is based upon the best evidence available at this point in time and, as such, may be subject to change as research in this field develops over time.

I.12 This ranking serves as a useful guide to those price practices that need to be handled most carefully and so forms the starting point for the use of our prioritisation framework.