Debate

The Use of Clearance Pricing as a Price Signal

ISSUE: Should the use of clearance pricing be regulated?

One type of price discounting commonly used in retail is a clearance. According to the American Marketing Association, a clearance is "an end-of-season sale to make room for more goods." It has also been defined as "pushing the sale of slow-moving, shop-worn, and demonstration model goods." While retailers can offer sales for temporary time periods, items in a clearance do not return to their original prices. Rather, the product is discounted until it is sold. Clearances are often short in duration, and items under clearance are not advertised.

Studies have demonstrated that many view the word "clearance" as a price signal indicating substantial discounts. Yet unlike other forms of sales promotion, clearances are less regulated, providing retailers with more freedom in deciding how to use them. Many retailers, including Macy's and clothing stores, use clearances extensively. By 2004 more than 30 percent of merchandise was sold at clearance. Consumers may be attracted to clearance pricing due to the following factors: 1) fear that the product will be discontinued before they purchase it, 2) belief that others will get to the item first, 3) perceived value of the product, 4) the belief that they are saving money, and 5) escalation of commitment due to time spent searching for sales.

It is clear that a clearance can be highly beneficial to retailers as well, particularly for getting rid of excess inventory or goods that are low in demand. However, as with many pricing strategies, this sales tactic has the potential to be abused. There is not a general consensus on the definition of a clearance. In addition, since clearances are not regulated, retailers might take the opportunity to use a clearance in ways that could mislead consumers into believing they are receiving better deals than they really are.

It has generally been ruled that the term "clearance" is an example of puffery, an exaggerated promotional claim that should not be taken seriously by a reasonable person. In 1985 the state of Wisconsin filed a lawsuit against American TV & Appliance alleging that the retailer's claims of offering "a clearance sale on the finest washers and dryers you can buy" was deceptive due to the following factors: 1) the products were not deemed to be of the finest quality, 2) the store was using the advertisement to get people in the store and then tried to up-sell them higher priced products, and 3) the merchandise was purchased exclusively for the event and therefore did not qualify as a sale. Although at first the courts ruled against the retailer, a later court overturned the ruling, stating that the term "clearance" in the ad was an example of puffery and hyperbole.

However, do consumers themselves view the term clearance as an exaggerated claim they should not accept at face value? Critics argue no. It has been generally accepted that clearance indicates substantial price discounts, so using the term "clearance" inappropriately can be deceptive. Without regulation, they argue, retailers can use this term to make consumers think they are receiving a substantial deal. In fact, research has shown that less than 15 percent of consumers know the amount of the associated price discount, enabling retailers to potentially seize an opportunity to mislead consumers through this more ambiguous term. In addition, critics argue that because the Federal Trade Commission (FTC) regulates sales discounts such as the use of the term "markdown" or "buy-one-get-one-free," there is no reason why the term "clearance" should not be similarly regulated.

On the other hand, regulating how the term "clearance" is used could have negative implications as well. Like any form of business regulation, regulation of a clearance would limit what a business can and cannot do. Placing limits on how can be used will likely mean that retailers will display the term "clearance" less due to the fear of violating FTC regulations. Yet clearances can be important strategies for retailers in selling products, particularly for firms that face much demand uncertainty for a product. Proponents of clearance pricing believe that firms should be free to use the term to signal price discounts as long as the claims are not false.

There are two sides to every issue:

1. Retailers should be able to use the term clearance without having to qualify or justify the amount of the discount.
2. Because the term clearance is potentially misleading, usage of the term should be regulated and not used unless there are substantial price discounts.

Sources:

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