SELLER BEWARE:
INFORMATION ASYMMETRY AND THE CHOICE OF
GENERIC COMPETITIVE STRATEGIES FOR SERVICE
BUSINESSES

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ABSTRACT

Information asymmetry between buyers and sellers has not been considered as a factor in generic competitive strategy choice. Central to traditional analyses of generic competitive strategy choice is the assumption that buyers have the ability to accurately perceive differences between alternatives. Information asymmetry, however, causes some potential buyers to mistrust quality claims and to misinterpret prices, particularly for services where information asymmetry is high. Therefore, service businesses should choose generic competitive strategies based on the level of information asymmetry likely to be present between them and their potential buyers. This information asymmetry is a function of service attributes and buyer expertise.
INTRODUCTION

Porter (1980) proposed three generic competitive strategies: lowest-cost producer, differentiation and focus. A crucial requirement for these strategies to deliver their intended results, that is, a competitive advantage for the firms choosing them, is that potential buyers are able to accurately perceive differences between alternatives. For example, for the lowest-cost strategy to work, potential buyers must be able to identify the lowest-cost supplier and estimate the value they derive from buying its products. Similarly, for the differentiation strategy to work, potential buyers must be able to discern and value differences in the offerings of alternate suppliers. The focus strategy, which is based on either a lowest-cost or a differentiated position within a narrow market niche, places the same demands on buyers.

Buyers, however, face a difficult and costly task in identifying all alternate suppliers and ascertaining the attributes of goods and services before purchase. This is due to information asymmetry between buyers and sellers (Akerlof 1970; Barzel 1982; Chan and Leland 1982; Holmstrom 1985; Wolinsky 1984). Information asymmetry means that buyers and sellers have different information about the object, tangible or intangible, that is the reason for the exchange. These information sets contain relevant data on what is being exchanged, such as its quality on multiple attributes, performance, specifications, and circumstances of delivery and after-sales service.

When there is information asymmetry, firms trying to differentiate their products may find that buyers are unable to perceive and value any differences. Hence, they may be unwilling to pay higher-than-average prices. This makes it difficult to reap the intended benefits from a differentiation strategy. Further, when there is information asymmetry, buyers may use prices as surrogate indicators of quality. Price may act as a quality signal (Wolinsky 1983), although it is not always a reliable indicator of quality (Allen 1984; Allen and Faulhaber 1988; Tellis and Wernerfelt 1987). Hence, the lowest-cost producer that hopes to gain a competitive advantage by charging a lower-than-average price may find that buyers anticipate that its quality may also be low. Therefore, they hesitate to buy from low-price suppliers. This makes it difficult to reap the intended benefits from the lowest-cost strategy. In addition to these difficulties, information asymmetry may cause a mismatch between buyers and sellers. This mismatch can take three forms: buyers may overlook suitable service providers, buyers may be dissatisfied with services that are properly delivered but are inappropriate for their needs and sellers may incur high costs in trying to satisfy incorrectly targeted buyers.

To begin to address these issues, this paper develops a model showing the influence of information asymmetry in generic competitive strategy choice by service businesses. Information asymmetry between buyers and sellers is a particularly important concern for services (Bowen and Jones 1986;
Holmstrom 1985; Mills 1990; Nayyar 1990; Zeithaml 1981). Service intangibility, inability to store services and difficulty in determining quality are frequently mentioned characteristics of services (Heskett 1986; Mills 1986; Normann 1984). These characteristics increase information asymmetry between buyers and sellers. Buyers perceive greater risk in purchasing services (Murray and Schlacter 1990). Further, service buyers' ability to evaluate service quality varies. Murray and Schlacter (1990) found that inexperienced buyers perceived higher financial and performance risk for service purchases than goods purchases while experienced buyers reported no differences in perceived risk across goods and services.

The model proposed in this paper is based on variations in information asymmetry levels that arise from variations in service attributes and buyer expertise. To show how the consideration of information asymmetry extends previous work on generic competitive strategies, the paper is organized as follows. First, it discusses fundamental competitive strategy choices. Second, it defines information asymmetry, describes the costs it raises and discusses ways to reduce information asymmetry. Then, in the next two sections, it shows how service attributes and how buyer expertise each affect information asymmetry. Next, it presents a model that shows how service attributes and buyer expertise combine with buyer price sensitivity and power to influence generic competitive strategy choice by service businesses. Finally, it develops a set of theoretical propositions and discusses implications for research and practice.

**GENERIC COMPETITIVE STRATEGY CHOICE**

To demonstrate the influence of information asymmetry in competitive strategy choice, we consider Porter's (1980) generic competitive strategies—lowest-cost, differentiation and focus. Considerable support has been found for the existence and effectiveness of these strategies (see, for example, Kim and Lim 1988). The lowest-cost producer establishes a competitive advantage by having the lowest-cost (at average quality) in the industry and earns an above normal return if it charges the average industry price (or just below it). The differentiation strategy establishes a competitive advantage by offering unique features for which the firm charges a higher-than-average price. The focus strategy stresses a narrow market niche. Within that narrow niche, the focuser may choose either to become the lowest-cost producer or to adopt a differentiation strategy.

Firms can differentiate their offerings in many ways (Chrisman, Hofer and Boulton 1988; Miller 1986). For example, firms might differentiate their services by varying the mix and quality of core service features they offer (i.e., basic attributes such as the physical design of tangible components, location,
technology and features such as delivery arrangements, financial terms and after-sales support). Or, they may differentiate their services on other aspects, such as reputation, brand name, guarantees, the level and type of advertising, that may be perceived as enhancing value (Levitt 1980; Porter 1980). These latter attributes are external to core service features and do not actually determine core service quality. Instead, they are a source of surrogate information and are intended to signal relative core service quality (Heskett 1986; Normann 1984). When these surrogates are present, reliance on price as an indicator of quality diminishes (Zeithaml 1988).

Focusing on core service attributes may be called a core-differentiation strategy. Here, a seller relies on the ability of buyers to accurately discern the value of a core service. In contrast, the use of surrogates may be called a surrogate-differentiation strategy. Here, a seller cannot rely on the abilities of buyers to accurately discern the value of a core service. Instead, other information sources are used to influence buyers’ assessment of relative service quality. Hence, firms may adopt either a lowest-cost strategy, a core-differentiation strategy or a surrogate-differentiation strategy. Firms may offer services that differ in quality along one or more core service attributes. Firms also may attempt to signal service differences to potential buyers via one or more sources of surrogate information.

Note that there can be multiple suppliers of similar quality products (although these products may be differentiated from products of a different quality level). These multiple suppliers may have different costs. Hence, it is possible for a firm to be a low-cost provider, the most efficient provider at a given quality level. Note, however, that this low-cost need not be the industry-wide lowest-cost. This results in a combination1 low-cost and differentiation strategy.

Previous work on generic competitive strategy choice assumed that buyers could accurately perceive differences among alternatives. In other words, buyers were assumed to be able to determine price and quality differences among alternative suppliers prior to making their purchase decisions. Stigler (1961) and Akerlof (1970) have shown, however, that this assumption is generally not satisfied. Thus, to choose among different generic competitive strategies, it is critical to understand the role of information asymmetry between buyers and sellers. This requires that we address the following important questions: (1) what are the costs of information asymmetry and how can they be reduced? and (2) what factors influence the level of information asymmetry? In addressing these questions, the next three sections lay the foundations of a model showing the influence of information asymmetry in generic competitive strategy choice.
INFORMATION ASYMMETRY

Information asymmetry is characterized by differing, private information sets among parties to an exchange (Milgrom and Roberts 1987; Phlips 1988; Stigler 1961). While there may be some commonly available information, buyers and sellers have some private information. For instance, buyers may be unsure of the prices charged by sellers, buyers may be unsure of the quality offered by sellers or sellers may be unsure about the prices buyers are willing to pay. Buyers are imperfectly informed due to the existence of a large number of alternative suppliers, a large number of dimensions on which to evaluate offerings, the complexity of some of those dimensions, a large variety of outlets and a variety of prices (Tellis and Wernerfelt 1987). Buyers and sellers do learn over time, but this learning is unlikely to be complete because buyers are mobile, new goods and services are introduced, new suppliers enter the market and new buyers are constantly entering and leaving the market due to demographic and psychographic changes (Tellis and Wernerfelt 1987).

Note that information asymmetry is different from the condition of incomplete information or uncertainty. Uncertainty implies, for example, that both buyers and sellers may be unsure of changes in government safety regulations. In contrast, note that certainty refers to the condition of complete information for all involved parties. Information asymmetry does not mean that a seller’s information is perfect or complete while a buyer’s is merely incomplete. Indeed, Holmstrom (1985) defined service quality as a function of effort, skill level and an exogenous factor over which service providers have no control. Examples of this exogenous factor range from buyer inputs and buyer behavior during service delivery to the weather. This implies that a service provider may have imperfect knowledge of service quality. Information asymmetry means that service providers know—but buyers do not—the extent and nature of the efforts a service provider intends to make in completing a service transaction.

Costs of Information Asymmetry

When information asymmetry exists between buyers and sellers, high and low quality products can co-exist in the marketplace (Akerlof 1970). This coexistence calls for buyers to determine the quality of goods and services before they buy. This search for information is problematic and costly (Stigler 1961).

Information asymmetry results in either moral hazard or adverse selection problems for buyers (Holmstrom 1985). Moral hazard means a seller has an incentive to exert less than complete effort in delivering a service. This incentive arises because a buyer cannot monitor all of a seller’s actions. Adverse selection can occur if a buyer is as likely to pick a low quality supplier as a high quality
supplier. This may happen because a buyer is unable to evaluate a seller's qualifications or the contingencies affecting service delivery. Since services are generally impossible to reverse and service outcomes are influenced by external factors, it is impossible for a service buyer to evaluate whether a seller's actions were proper and adequate (Holmstrom 1985). Under these conditions, low quality providers can enter a market and drive out high quality providers. This is because low quality providers lower price so much that high quality providers cannot obtain economic returns that justify producing high quality (Akerlof 1970).

Reducing Information Asymmetry

Information asymmetry may be reduced by activities such as contingent and liability contracts, warranties, certification, monitoring and signaling. These activities may reduce information asymmetry but they cannot eliminate it. The inability to fully anticipate all contingencies that may arise in the execution of a contract prevents the writing of complete contingent claims contracts. Since services are consumed as they are delivered, they are neither reversible nor returnable. Therefore, warranties covering services are often difficult to administer. Certification is no performance guarantee. Furthermore, when certification is widespread, it provides no distinct performance signal. Monitoring is often inadequate because it also suffers from information asymmetry between the monitor and the person or facility being monitored (Holmstrom 1985).

Firms may try to signal product quality by undertaking bonding actions such as firm-specific investments in specialized education, equipment and advertising (Nelson 1970, 1974). These activities seek to assure potential buyers that a firm is committed to supplying high quality. In some cases, prices also may act as signals of quality. When quality is unobservable, firms do not have an incentive to lower price to equal marginal cost. This is because lower prices make it more profitable for firms to produce low, instead of high, quality. Since potential buyers know this, they may judge quality as being low when they observe low prices. Therefore, they may not buy from a low-price firm. Hence, when there is information asymmetry in a competitive market, high prices may signal high quality (Wolinsky 1983).

Firm-specific investments and price distributions, however, are not always sufficient to reliably signal quality (Allen 1984; Allen and Faulhaber 1988; Tellis and Wernerfelt 1987). Fly-by-night, low quality producers could also make firm-specific investments and charge high prices, thereby distorting any monotonic relation between prices and service quality (Darby and Karni 1973; Faulhaber and Yao 1989). Tellis and Wernerfelt (1987) report that there is a great variation in price-quality correlation across markets and that in some instances the correlation between price and quality is negative. They show that
greater information in the market tends to be associated with a positive price-
quality relationship.

In summary, actions by buyers and sellers may alter the extent of information
asymmetry present. It is unlikely, however, that information asymmetry will
be completely eliminated. Hence, there will remain some information
asymmetry between buyers and sellers. In the following two sections, we
examine the effects of service attributes and of buyer expertise on information
asymmetry.

SERVICE ATTRIBUTES AND INFORMATION ASYMMETRY

The effect of service attributes on information asymmetry may be examined
by differentiating among services in terms of three attributes: search, experience
and credence qualities (Darby and Karni 1973; Holmstrom 1985; Shostack
1977; Wilde 1981; Zeithaml 1981). These attributes have also been used in other
studies of services that were based on information asymmetry (Bowen and

Search qualities are attributes that potential buyers can determine before
qualities include attributes such as color, style, price, fit, feel, hardness and
smell. These attributes are generally associated with tangible components of
services such as the physical facility design and layout, equipment quality,
service personnel attire and facilitating goods such as consulting reports,
structural plans, presentation material and table linen. Other search qualities,
not necessarily associated with tangible components of services, include
attributes that describe a service such as the term, interest rates, assumability
and monthly payments associated with mortgage loans.

Experience qualities are attributes determined only after purchase or during
rience qualities include attributes such as taste, purchase satisfaction,
convenience, safety, security, speed, reliability, level of comfort, and attention
to needs and feelings of buyers.

Credence qualities are intangible attributes that a buyer may be unable to
evaluate even after purchase and consumption (Darby and Karni 1973;
Holmstrom 1985; Zeithaml 1981). Credence qualities are attributes such as
degree of professionalism, claimed advantages of certain repair and medical
care procedures, sense of fairness, level of care and extent of knowledge.

While each service is comprised of a mix of search, experience and credence
qualities, for most services one of these attributes is likely to dominate. Hence,
services may be categorized as high on either search, experience or credence
qualities. Accordingly, in the remaining sections of this paper, we will refer
to search services, experience services and credence services.
Differences in services' mix of search, experience and credence qualities leads to different information asymmetry levels between buyers and sellers. Information asymmetry between buyers and sellers is greatest for credence services and lowest for search services. Experience services lie between these two extremes (Darby and Karni 1973). Buyers encounter greater difficulty in assessing the quality of experience and credence services compared to search services (Zeithaml 1981). Therefore, service attributes influence buyer behavior (Holmstrom 1985; Nelson 1970, 1974; Stigler 1961). The greater the difficulty in assessing quality, the greater the likelihood that buyers will mistrust quality claims and misinterpret prices.

**BUYER EXPERTISE AND INFORMATION ASYMMETRY**

Buyers’ ability to evaluate service quality varies with level of expertise. Buyer expertise reduces risk due to information asymmetry in judging service quality. Alba and Hutchinson (1987) distinguish expertise from mere familiarity. Familiarity refers to product exposure frequency. Expertise refers to development of cognitive capabilities that lead to successful analyses and inferences about product attributes. Tellis and Gaeth (1990) support this distinction. They found that repeated experience—unaccompanied by learning—does not improve quality of buying decisions. Repetition only reduces variance in outcomes.

Alba and Hutchinson (1987) highlighted the differences between how novices and experts select and use information. Buyers’ ability to make accurate inferences about quality based on available information depends on their expertise level for the target product. Expert buyers are likely to draw more accurate inferences, even without complete information, due to their accumulated knowledge about the determinants of quality. In contrast, novices do not have the required knowledge about these determinants to accurately infer quality (Alba and Hutchinson 1987).

While Alba and Hutchinson’s (1987) review focused on individual expertise, organizations also acquire expertise through learning. Nelson and Winter (1982) described organizational memory stored as routines and maintained by repeated use. The content of these routines relies on individual behavior and skills which often involve tacit knowledge. This description parallels the definition of expertise involving changes in cognitive capabilities (Alba and Hutchinson 1987). Winter (1987) also noted that expertise, whether embodied in individuals or in organizational routines and repertoires, is a strategic asset. Providing support for the importance of organizational expertise, Kohli (1989) found expert power to be the most significant influence on vendor choice by buying centers.

Greater buyer expertise supports knowledgeable inferences about service quality and outcomes and, therefore, reduces the level of information
asymmetry. This reduces perception of risk. Expertise can also change perceptions that price measures quality. Based on a review of price/quality perception studies, Zeithaml (1988) suggested that price is a surrogate for quality when buyer experience is low or product attributes are hard to interpret. This suggests that information asymmetry between buyers and sellers is higher for novices than for experts. Thus, experts are more likely to accurately evaluate service quality while novices are more likely to mistrust quality claims and misinterpret prices.

**AN INFORMATION ASYMMETRY MODEL OF GENERIC COMPETITIVE STRATEGY CHOICE FOR SERVICE BUSINESSES**

Generic competitive strategies are ways for firms to establish competitive advantages. To succeed, all competitive strategies require that buyers be able to evaluate the relative service quality offered by alternate sellers. The presence of information asymmetry between buyers and sellers makes this difficult. Sellers, therefore, should consider the drivers of information asymmetry when choosing a generic competitive strategy.

Service attributes and buyer expertise influence the level of information asymmetry present in a particular case. The greater the difficulty in evaluating a service prior to purchase, the greater the information asymmetry. Thus, when information asymmetry exists, buyers evaluating alternative service sellers not only are unable to determine service quality but also may believe that low price means low quality. Expert buyers, however, do not face the same level of difficulty in evaluating services prior to purchase. Expertise helps buyers reduce information asymmetry and discern service quality determinants. Thus, experts are better able to evaluate service quality prior to purchase.

However, service attributes and buyer expertise are not the only influences on buyer behavior. Buyer price sensitivity and power also influence generic competitive strategy choice. Low price sensitivity offers opportunities for adopting a differentiation strategy. Conversely, high price sensitivity precludes differentiation, suggesting adoption of a lowest-cost strategy (Hill 1988; Murray 1988; Porter 1980).

Relative buyer power is influenced by industry characteristics. For instance, a fragmented supplying industry compared with a concentrated buying industry implies that buyer power is likely to be high. Similarly, in high growth markets, relative buyer power is likely to be low. Sources of buyer power include purchasing a large portion of a supplier's total output and having multiple suppliers among whom a buyer can move at low cost. Conversely, a supplier gains power when supplying a custom product for which substitutes are not readily available and whose quality is critical to the success or reputation of a buyer. The threat of backward integration is also a source of buyer power.
(Porter 1980). Backward integration, interpreted in an information context, implies that a buyer has the information at hand to assess suppliers' costs and evaluate their performance.

Porter identified information as the basis for buyer price sensitivity, stating:

Buyers who are poorly informed about the cost of an input, demand conditions or criteria on which alternative brands should be evaluated tend to be less price sensitive than very well-informed buyers. If buyers are very well informed about the state of demand and suppliers' costs ... they can be ruthless price bargainers .... Poorly informed buyers, however, tend to be swayed by subjective factors and tend to be less certain about squeezing suppliers' margins (Porter 1980, p. 117).

Porter (1980) distinguished having buyer power from the price-sensitivity-based motivation to exercise that power. Potentially powerful buyers will exert power only if they are also price sensitive. Buyer price sensitivity is higher when product cost is a high portion of budget, product quality or effectiveness is relatively unimportant or buyers seek an undifferentiated product.

In summary, service attributes and buyer expertise influence the level of information asymmetry between buyers and sellers. Relative buyer power determines whether buyers can bargain for lower prices from alternative suppliers that can meet a buyer's quality needs. Buyer price sensitivity determines whether buyers will also seek a low-cost provider of a given quality. Price-sensitive buyers, if unable to meet their quality needs at a given price, will be more likely to adjust their quality needs rather than pay a higher price.

The information asymmetry model is an important extension to the literature on generic competitive strategy choice. It relaxes the fundamental assumption of information symmetry between buyers and sellers prevalent in that literature. Instead, it focuses attention on information asymmetry between buyers and sellers. This focus leads, naturally, to questions about the antecedents of information asymmetry. These antecedents are service attributes and buyer expertise. In addition, buyer price sensitivity and power play a role. These key links between information asymmetry and generic competitive strategy choice for service businesses are summarized in Figure 1.

Research suggested by the information asymmetry model should shed light on three important issues: How to choose a generic competitive strategy given information asymmetry? What are the effects of changes in the level of buyer expertise on the level of information asymmetry? When, and in what way, should service firms attempt to influence the level of information asymmetry? Some specific propositions and research questions that emerge from the information asymmetry model are discussed next.
Figure 1. An Information Asymmetry Model of Generic Competitive Strategy Choice
Generic Competitive Strategy Choice Under Information Asymmetry

Differences in service attributes and variations in buyer expertise are critical in determining the level of information asymmetry present between buyers and sellers. As noted earlier, firms may attempt to influence the level of information asymmetry by undertaking various activities. The following analysis refers to the level of information asymmetry remaining after these actions to reduce information asymmetry have been taken.

Search Services

Search services can be reliably evaluated by potential buyers before purchase. Hence, information asymmetry between buyers and sellers is low for search services. Therefore, both experts and novices can accurately assess the relative value offered by alternative suppliers. Quality claims by alternative suppliers can be evaluated. Prices will signal quality and, hence, value. If buyers of search services are price sensitive, they will seek the lowest-cost provider. For example, General Motors uses 24 banks for its routine banking needs to minimize its costs (Baker 1990). Also, consider the emergence of the 10-minute, $19.95 oil change firms. Some service shops connected with new car dealers have attempted to offer a similar service but at a higher price, reflecting their higher cost structure. A price-sensitive buyer has no incentive to pay more for this service and will seek out the lowest price service. A new car dealer service center would be unwise to retrofit its service facility to accommodate volume oil-change business if it cannot achieve the lowest cost position.

Proposition 1A. For search services targeted at buyers of any level of expertise and when buyers are price-sensitive, a lowest-cost strategy should be adopted.

In contrast, if buyers of search services are not price sensitive, they will seek a supplier that best meets their particular core service needs. This would imply the need for a differentiation strategy. In particular, a core-differentiation strategy should be adopted for search services because differences in core attributes of such services can be directly evaluated and valued. Providing surrogate information on search qualities is irrelevant. In this case, however, relative buyer power also should be considered. Buyers who are neither price sensitive nor powerful will seek a supplier who best meets their quality needs. Examples demonstrating core-differentiation include restaurants and department stores. Restaurants appeal to variety-seeking buyers by differentiating food selection, service style and setting. Industry observers believe that failure to maintain core distinctiveness of its high-fashion department stores contributed to Federated Department Stores' takeover by Robert Campeau (Hymowitz 1988).
Proposition 1B. For search services targeted at buyers of any level of expertise and when buyers are not price-sensitive and not powerful, a core-differentiation strategy should be adopted.

Powerful buyers would seek a low-cost provider, the most efficient provider of search services from among alternate suppliers of a given quality level, even if those buyers are not price sensitive. This is because the quality of search services can be evaluated before purchase and a powerful buyer would not be willing to pay a premium price when alternative suppliers of the same quality are available. Car rental companies such as Hertz and Avis differentiate themselves by car makes offered, ease of check-in procedures and facility location. However, they offer discounts to attract powerful corporate buyers who would choose the best discount on comparable service offerings.

Proposition 1C. For search services targeted at powerful buyers of any level of expertise and when there are multiple suppliers of a given quality level, a combination low-cost and core-differentiation strategy should be adopted.¹

Experience Services

Experience services cannot be evaluated before purchase. Hence, information asymmetry between buyers and sellers is high for experience services. In this case, however, the level of information asymmetry varies with buyer expertise.

Experts. Experts will be able to evaluate the quality claims made by alternative suppliers of experience services. They also will be able to interpret prices and, therefore, assess value accurately. Thus, if expert buyers of experience services are price sensitive, they will seek the lowest-cost provider. For example, Union Carbide shopped for several investment banking services for tender offers, bridge loans, equity offering and private placement (Eccles and Crane 1988). Southwest Airlines, which is reputed to have the lowest costs in the industry because of a classic no-frills strategy, is among the very few airlines that still make money (O’Brien 1992).

Proposition 2A. For experience services targeted at expert price-sensitive buyers, a lowest-cost strategy should be adopted.

In contrast, if expert buyers of experience services are not price sensitive, they will seek a supplier that best meets their particular core service quality needs. This implies the need for a differentiation strategy. In particular, a core-differentiation strategy should be adopted because expert buyers can evaluate
and value differences in core service attributes. Thus, providing surrogate information on experience qualities to expert buyers is irrelevant. In this case, however, relative buyer power also should be considered. Expert buyers who are not price sensitive and not powerful will seek a supplier who best meets their quality needs. Thus, entertainment services which offer unusual experiences—such as demolishing a building—can thrive (Jefferson 1992). Similarly, Cunard Cruise Lines and British Airways are able to charge premiums for their unique offerings—the QE2 luxury cruise ship and the Concorde supersonic transatlantic jet.

**Proposition 2B.** For experience services targeted at expert buyers who are not price-sensitive and not powerful, a core-differentiation strategy should be adopted.

Expert buyers who are powerful but who are not price-sensitive will seek a low-cost provider of experience services from among alternative suppliers of a given quality level. This is because experts can accurately determine the quality of experience services before purchase due to their accumulated knowledge of the determinants of service quality. Therefore, powerful expert buyers would not be willing to pay a premium price when alternative suppliers of the same quality are available.

Experts are more likely, compared with novices, to exercise buyer power if they so desire. Once expert buyers determine alternate suppliers of similar quality services, they are in a position to seek low-cost sellers—the most efficient providers at a given quality level. As experts, they would be able to detect any service quality reduction prompted by price pressure. This suggests the adoption of a combination low-cost and core-differentiation strategy.

For example, the American Express credit card service is an experience service for subscribing retailers since its original idea was to bring in more upscale customers. Subscribing retailers became relatively powerless as American Express grew. American Express set prices and focused on growth rather than account service. Over time, the availability of more credit card firms offering lower prices to subscribing retailers eventually led to a backlash movement among Boston restaurants. In the face of media attention and group protest, American Express was forced to lower prices. It followed this with cost cutting measures coupled with improved services to reinforce its image (Pae 1992). This interaction of low-cost and core-differentiation is also evident in limited-service and extended-stay hotels targeted at business travelers. These knowledgeable buyers know what service components they desire (Yoshihashi 1992). As another example, consider the case of Kiwi International, an airline that differentiates itself by allowing travelers complete flexibility in changing seat reservations. It could charge a premium price for this feature of its core service but to attract customers, it has chosen to match the lowest price in
any market in which it operates (Rothman 1992). Thus, it is has adopted a combination low-cost and core-differentiation strategy.

**Proposition 2C.** For experience services targeted at expert buyers who are powerful and when there are multiple suppliers of a given quality level, a combination low-cost and core-differentiation strategy should be adopted.¹

**Novices.** For experience services, novice buyers will be unable to evaluate quality claims made by alternative suppliers. Novices lack the relevant information to identify determinants of service quality. Therefore, information asymmetry between novice buyers and sellers remains high. They also will not be able to interpret prices and, therefore, will not be able to assess value accurately. Hence, a low price may be interpreted to mean low quality by novice buyers. Novice buyers also will not be able to accurately discern core-service differences. Thus, novices are likely to rely on surrogate information when evaluating experience services.

Furthermore, buyer power and price sensitivity do not play a motivating role when buyers are novices. This is because novice buyers link price with quality and, therefore, suspect that low price may mean low quality. Even typically powerful buyers such as some government agencies and corporate buyers will suspend rules for awarding contracts to low bidders when buying unique or new services about which they have little knowledge. By the definition of an experience service, a novice buyer does not know how a seller might modify its actions in response to price pressure. A novice is unable to determine, prior to purchase and consumption of a service, whether a seller, in accepting a lower price from a powerful buyer, is (1) accepting less profit while maintaining quality, (2) reducing quality harmlessly while accepting slightly lower profit or (3) reducing quality drastically while sustaining profit.

Hence, novice buyers do not exercise buyer power for experience services because they fear that doing so may change the incentives for suppliers and may lead to poor quality. Furthermore, even if novice buyers are able to identify alternate suppliers offering different prices, they are not in a position to evaluate the quality of each supplier when experience services are involved. Thus, they are likely to be suspicious of suppliers offering lower-than-average prices. Therefore, novices may pay more hoping to get high quality service. Novices who pursue low cost may do so at their peril. For instance, novice vacationers responding to exceptionally low price travel packages or to “prizes” may find themselves victims of scams. Such scams involve costly, hidden charges to claim “free” features or use bait-and-switch tactics (McGinley 1992). Suppliers targeting novices attempt to provide greater information that may provide evidence of expected quality. Massachusetts Mutual Life Insurance Company’s literature explains various types of policies and how it can match these policies
to buyers' needs. Another example is Smith Barney’s recent free publication titled “The Clinton Presidency: A Post-Inaugural Outlook” that seeks to inform novice investors of the likely future trends that may impact their investment decisions.

**Proposition 3.** For experience services targeted at novice buyers, whether they are powerful or not and whether they are price-sensitive or not, a surrogate-differentiation strategy should be adopted.

*Credence Services*

Credence services are difficult to evaluate even after purchase. Hence, information asymmetry between buyers and sellers is high for credence services. In this case, however, buyer behavior varies with buyer expertise.

*Experts.* Experts recognize the core service quality determinants of credence services. They are unable, however, to predict precisely delivered core service quality. The true quality of credence services may not be known for two reasons. First, the determinants of quality such as skill level may be identifiable but not be measurable. This makes it difficult to determine when, or if, more effort or greater skill would produce a noticeably better service. Second, the impact of factors beyond a service provider’s control plays a greater role in credence services. For instance, is the outcome of a criminal trial the result of a lawyer’s skill or of a client’s innocence?

Surrogates provide a means for a seller to communicate the intangible aspects of a service, albeit indirectly. Surrogates may reflect a seller’s quality intentions or provide evidence of a supplier’s prior success. An expert will be more able than a novice to evaluate the relevance of these surrogates to a specific service transaction. An expert will use surrogates related to credence services to distinguish suppliers based on preferences that do not affect core service quality or to weigh surrogates that might correlate with core quality in some instances but not in others.

Knowing the determinants of quality, experts are unlikely to equate price with quality or to be misled by surrogate information. Since information asymmetry remains high, expert buyers of credence services will use surrogate information judiciously to infer differences among suppliers. Thus, for credence services a surrogate-differentiation strategy should be adopted for expert buyers. In this case, however, buyer price sensitivity also should be considered. If *expert* buyers of credence services are price sensitive, they will seek a low-cost supplier, the most efficient provider, from among alternative suppliers that are judged, based on surrogate information, to best meet the buyer’s particular core service quality needs. This is because they do not believe that paying a premium price increases the likelihood of obtaining the desired delivered service.
quality. For example, manufacturers of complex medical and office equipment have attempted to restrict repair services to their authorized dealers. Independent repair firms, backed by price-sensitive service buyers, are challenging these restrictions in court. The independent repair firms offer comparable quality service at lower cost according to knowledgeable service buyers (Rigdon 1992).

Proposition 4A. For credence services targeted at expert buyers who are price sensitive and when there are multiple suppliers of a given quality level, a combination low-cost and surrogate-differentiation strategy should be adopted.¹

In contrast, if expert buyers of credence services are not price sensitive, buyer power plays a role in determining whether expert buyers of credence services will seek a low-cost supplier that best meets their particular core service quality needs. Expert buyers who are not price-sensitive and not powerful would have neither the motivation nor the ability to seek a low-cost provider of credence services from among alternative suppliers. Instead, such buyers will seek a supplier that is judged, based on surrogate information, to best meet a buyer's particular core service quality needs. For example, management consulting firms such as McKinsey and Company and Arthur D. Little and Company rely on their reputations and “success” rates to influence prospective buyers who are seeking the best advice and assistance to solve complex problems that often impinge on the survival of a firm and which they cannot tackle in-house.

Proposition 4B. For credence services targeted at expert buyers who are neither price sensitive nor powerful, a surrogate-differentiation strategy should be adopted.

Expert buyers who are powerful but not price sensitive will not hesitate to exercise their buying power. Again, this is because they do not expect that paying a premium price improves delivered service quality. Therefore, they will seek a low-cost supplier, the most efficient provider, of credence services from among alternative suppliers that are judged, based on surrogate information, to best meet a buyer's particular core service quality needs. For example, some corporate buyers have turned to regional law firms which offer comparable quality services at lower prices than their larger, big-city peers. In this instance, these buyers have concluded that neither size nor location added to delivered service quality and thus did not justify a price premium (Kang 1992).

Proposition 4C. For credence services targeted at powerful expert buyers and when there are multiple suppliers of a given quality level, a combination low-cost and surrogate-differentiation strategy should be adopted.¹
Novices. For credence services, just as for experience services, novice buyers will be unable to evaluate the quality claims made by alternative suppliers. Therefore, information asymmetry between novice buyers and sellers remains high for credence services. They also will not be able to interpret prices and to accurately discern core-service differences. Thus, as for experience services, novices are likely to rely on surrogate information when evaluating credence services.

As noted above, buyer power and price sensitivity do not play a role when buyers are novices. Even if novice buyers are powerful, they do not exercise buyer power because they have no motivation to do so. Thus, variations in buyer power and price sensitivity of novices do not affect generic competitive strategy choice for credence services. For example, many patients rely on a doctor's referral to pick heart surgeons. However, referring physicians may not be aware of performance differences among hospitals or surgeons. Doctors rely instead on their own hospital affiliations (Wessel and Bogdanich 1992). T. Rowe Price, which manages a family of mutual funds and provides investment advice, offers a free retirement planning kit (or, software for $15) for novice investors to inform them of the firm's extensive expertise in this field.

**Proposition 5.** For credence services targeted at novices, whether they are powerful or not and whether they are price-sensitive or not, a surrogate-differentiation strategy should be adopted.

Table 1 summarizes the arguments and examples leading to the propositions developed above. Details of examples are presented in the Appendix.

Changes in Buyer Expertise

Novice buyers may eventually acquire expertise. As Posner (1988) has suggested, expertise develops through practice, repeated exposure to patterns, inherent ability and motivation to learn. Thus, buyer expertise is likely to increase over time. Price sensitivity can be seen as a motivation to increase expertise. As expertise increases, ability to discriminate among suppliers based on their prices and to exercise available power increase. Increases in buyer expertise mean that the level of information asymmetry between buyers and sellers of services declines over time. Thus, service sellers should adapt their strategies accordingly. For example, as a service industry matures, the level of information asymmetry between buyers and sellers is likely to decrease. This suggests that service providers need to consider adopting a lowest-cost strategy as an industry matures. This expectation is consistent with the view that as industry growth rate slows, the level of competition increases leading to the adoption of a lowest-cost strategy (Grant 1986; Hill 1988; Porter 1980). For
<table>
<thead>
<tr>
<th></th>
<th>Buyer Characteristics</th>
<th>Likely to Price Shop</th>
<th>Likely to Exercise Buying Power</th>
<th>Attributes Buyers Evaluate</th>
<th>Indicated Strategy (Proposition)</th>
<th>Examples Illustrating Arguments Leading to Propositions</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>SERVICES HIGH ON SEARCH QUALITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experts and Novices</td>
<td>Sensitive/Powerful</td>
<td>Yes</td>
<td>Yes</td>
<td>Core Service</td>
<td>Lowest Cost (1a)</td>
<td>Retail banking</td>
</tr>
<tr>
<td></td>
<td>Sensitive/Not Powerful</td>
<td>Yes</td>
<td>No</td>
<td>Core Service</td>
<td>Lowest Cost (1a)</td>
<td>10-minute oil change</td>
</tr>
<tr>
<td></td>
<td>Insensitive/Not Powerful</td>
<td>No</td>
<td>No</td>
<td>Core Service</td>
<td>Core-Differentiation (1b)</td>
<td>Restaurants; Department stores</td>
</tr>
<tr>
<td></td>
<td>Insensitive/Powerful</td>
<td>No</td>
<td>Yes</td>
<td>Core Service</td>
<td>Core-Differentiation and Low Cost (1c)</td>
<td>Automobile rental</td>
</tr>
<tr>
<td><strong>SERVICES HIGH ON EXPERIENCE QUALITIES</strong></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Experts</td>
<td>Sensitive/Powerful</td>
<td>Yes</td>
<td>Yes</td>
<td>Core Service</td>
<td>Lowest Cost (2a)</td>
<td>Union Carbide investment banking</td>
</tr>
<tr>
<td></td>
<td>Sensitive/Not Powerful</td>
<td>Yes</td>
<td>No</td>
<td>Core Service</td>
<td>Lowest Cost (2a)</td>
<td>Southwest Airlines</td>
</tr>
<tr>
<td></td>
<td>Insensitive/Not Powerful</td>
<td>No</td>
<td>No</td>
<td>Core Service</td>
<td>Core-Differentiation (2b)</td>
<td>QE2 or Concorde;Rare entertainment</td>
</tr>
<tr>
<td></td>
<td>Insensitive/Powerful</td>
<td>No</td>
<td>Yes</td>
<td>Core Service</td>
<td>Core-Differentiation and Low Cost (2c)</td>
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</tr>
<tr>
<td>Novices</td>
<td>Sensitive/Powerful</td>
<td>No</td>
<td>Yes</td>
<td>Surrogate Information</td>
<td>Surrogate-Differentiation (3)</td>
<td>Home refinance</td>
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<tr>
<td></td>
<td>Sensitive/Not Powerful</td>
<td>No</td>
<td>No</td>
<td>Surrogate Information</td>
<td>Surrogate-Differentiation (3)</td>
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<td>Insensitive/Not Powerful</td>
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<td>No</td>
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<td></td>
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<td>Yes</td>
<td>Surrogate Information</td>
<td>Surrogate-Differentiation (3)</td>
<td>Suspending bidding policies</td>
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</table>

(continued)
Table 1. (Continued)

<table>
<thead>
<tr>
<th>Buyer Characteristics</th>
<th>Likely to Price Shop</th>
<th>Likely to Exercise Buying Power</th>
<th>Attributes Buyers Evaluate</th>
<th>Indicated Strategy (Proposition)</th>
<th>Examples Illustrating Arguments Leading to Propositions*</th>
</tr>
</thead>
<tbody>
<tr>
<td>Experts</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sensitive/Powerful</td>
<td>Yes</td>
<td>Yes</td>
<td>Surrogate Information</td>
<td>Surrogate-Differentiation and Low Cost (4a)</td>
<td>Complex equipment repair</td>
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<td>Sensitive/Not Powerful</td>
<td>Yes</td>
<td>No</td>
<td>Surrogate Information</td>
<td>Surrogate-Differentiation and Low Cost (4a)</td>
<td>Architectural design</td>
</tr>
<tr>
<td>Insensitive/Not Powerful</td>
<td>No</td>
<td>No</td>
<td>Surrogate Information</td>
<td>Surrogate-Differentiation (4b)</td>
<td>Management consulting</td>
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<tr>
<td>Insensitive/Powerful</td>
<td>No</td>
<td>Yes</td>
<td>Surrogate Information</td>
<td>Surrogate-Differentiation and Low Cost (4c)</td>
<td>Legal services</td>
</tr>
<tr>
<td>Novices</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Sensitive/Powerful</td>
<td>No</td>
<td>Yes</td>
<td>Surrogate Information</td>
<td>Surrogate-Differentiation (5)</td>
<td>Legal services</td>
</tr>
<tr>
<td>Sensitive/Not Powerful</td>
<td>No</td>
<td>No</td>
<td>Surrogate Information</td>
<td>Surrogate-Differentiation (5)</td>
<td>Automobile repair</td>
</tr>
<tr>
<td>Insensitive/Not Powerful</td>
<td>No</td>
<td>No</td>
<td>Surrogate Information</td>
<td>Surrogate-Differentiation (5)</td>
<td>Retirement planning</td>
</tr>
<tr>
<td>Insensitive/Powerful</td>
<td>No</td>
<td>Yes</td>
<td>Surrogate Information</td>
<td>Surrogate-Differentiation (5)</td>
<td>Heart Surgery</td>
</tr>
</tbody>
</table>

Note: * See text and Appendix for details.
example, Byrne (1992) describes several actions the FDIC has imposed on law firms selling it legal services. The FDIC has forced sellers to reduce or eliminate charges for routine tasks which are not unique to a delivered service or to which a seller adds no value. It has also forced sellers to unbundle service components, with the FDIC handling more routine components in-house. The presence of in-house expertise has allowed the FDIC to monitor and challenge billings rather than rubber stamp invoices that simply match contract figures. Thus, over the long run, a seller of search services can survive an imposed low price position and achieve competitive advantage only if it pursues a low-cost strategy.

**Proposition 6A.** Buyer expertise is likely to increase over time.

**Proposition 6B.** As buyer expertise increases over time, service firms should adopt either a lowest-cost strategy or a combination low-cost and differentiation strategy when there are multiple suppliers of a given quality level.

**Influencing Information Asymmetry**

The level of information asymmetry between buyers and sellers can be influenced. For example, a service high on search qualities might be positioned as one high on experience and credence qualities by actions such as bundling services together (e.g., term life insurance with investments) or undertaking advertising which suggests that the service offers certain hard-to-evaluate benefits such as lifestyle improvements (e.g., fast-food for trendy teenagers). Alternatively, sellers of hard-to-evaluate services might focus on easy-to-evaluate attributes to reduce information asymmetry. This lowers perceived risk for service buyers (e.g., fixed-fee, tax return preparation services). For instance, the 10-minute oil change firm isolated a service component that had been embedded in a larger, experience service—auto repair and maintenance. It focused on a routine function that could be performed with a reliable outcome. Built at convenient locations, quick oil change firms added to the predictability of service quality by imposing a time limit on performance. Price was clearly displayed and the service itself could be observed, unlike in a car dealer’s service bays. Buyers could see their cars pull in and leave within the guaranteed time. The name of the franchise essentially told buyers what they needed to know. Research is needed to examine the conditions under which various approaches to altering information asymmetry between service buyers and sellers are appropriate and when and how service firms should increase or decrease information asymmetry.

The inclusion of information asymmetry as a factor in generic competitive strategy choice also might be useful in examining whether service sellers make
good service buyers and, conversely, whether service buyers make good service sellers. Recently, many large firms that regularly purchase legal and advertising services have employed lawyers and advertising executives, who were previously sellers of services, to help monitor and control the quality and costs of the respective services that they buy. One rationale for these actions is that such in-house expert buyers will help reduce information asymmetry between service buyers and sellers and consequently lead to significant service purchasing efficiencies and to improved service quality. Similarly, defense contractors employ persons who have previously purchased their goods and services for the military. Investment banks active in mergers and acquisitions also have hired executives from firms that seek advice from investment banks. While these actions affect the level of information asymmetry between buyers and sellers, research is needed to ascertain under what conditions such actions are indicated and what consequences they produce.

IMPLICATIONS FOR PRACTICE

The role of information asymmetry between buyers and sellers has several implications for managerial practice. First, it highlights the importance of carefully considering service attributes and buyer expertise when choosing a generic competitive strategy. Second, it suggests that actions that firms take to provide information to buyers should be congruent with generic competitive strategy. Third, it highlights the need to consider changes in information asymmetry over time. These changes may occur as buyers acquire expertise or as firms disseminate greater information about their services. Fourth, it highlights the need to achieve a congruence between a seller’s generic competitive strategy and the buyers it targets. A mismatched generic competitive strategy-to-buyer profile does more than simply create a dissatisfied buyer. Potential buyers may not even consider a service provider if its generic competitive strategy is inappropriate to meet a buyer’s needs. Further, serving different buyers carries different costs. Providing the extra handholding needed by a novice can overwhelm the slim margins earned by a low-price, high-volume service designed for experts. Thus, some discount brokerages make clear that their services are for experienced investors only, some architecture firms preclude the novice design client by refusing assignments for private residences and some software firms only sell telephone technical support services to clients who have also purchased training services.

Information asymmetry not only contributes to costs for buyers and sellers but also offers opportunities to gain competitive advantages. Our analysis supports Davidow and Uttal’s (1989) assertion that service firms should adopt a “focused” strategy to gain a competitive advantage. In addition, we suggest that adopting a single generic competitive strategy either for services with
different search, experience and credence qualities or for buyers with different expertise levels is unlikely to lead to success. Thus, contrary to Davidow and Uttal's assertion, a focus on serving only particular groups of buyers with similar levels of expertise is not adequate. And, a focus on offering only services with similar attributes also is not adequate. Instead, service businesses should focus on both service attributes and buyer expertise when choosing a generic competitive strategy.

CONCLUSION

This paper proposed a model showing the influence of information asymmetry in generic competitive strategy choice by service businesses. Table 2 summarizes the key differences between the traditional symmetric information approach and the new information asymmetry approach.

Information asymmetry between buyers and sellers has not been considered as a factor in generic competitive strategy choice. Therefore, it has been assumed that all buyers could accurately perceive the value offered by goods and services they buy. This ability to accurately perceive differences between alternatives is central to traditional analyses of generic competitive strategy choice. Information asymmetry, however, causes some buyers to mistrust quality claims and misinterpret prices, particularly for services. Therefore, service businesses should choose competitive strategies based on the level of information asymmetry likely to be present between them and their potential buyers. Information asymmetry between buyers and sellers is, in turn, affected by variations in service attributes and buyer expertise.

Our analysis shows that for search services and for experience services targeted toward expert buyers, information asymmetry does not present a problem for traditional analyses of generic competitive strategy choice. In contrast, for experience services targeted toward novice buyers and for credence services, information asymmetry plays an important role in generic competitive strategy choice.

Although our analysis focused on services only, it has implications for goods also. We restricted our analysis to services because information asymmetry is a particular concern for them. In general, however, on a continuum of search, experience and credence qualities, most goods lie toward the search end while most services lie toward the credence end. Further, given the presence of tangible indicators of the quality of goods and the relative ease of determining their quality, we felt it prudent to limit our analysis at this stage to services only. However, information asymmetry is also salient for relatively complex products such as personal computers. The arguments and propositions presented in our paper can help to explain what has happened in this industry. For example, our analysis would predict the greater use of cost-based strategies
Table 2. A Comparison of Symmetric and Asymmetric Information Approaches

<table>
<thead>
<tr>
<th>Model Characteristics</th>
<th>Symmetric Information</th>
<th>Asymmetric Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Buyers' ability to discern quality and price</td>
<td>Not important: All buyers can discern differences</td>
<td>Critical contingency: Buyers' ability to discern differences varies. Creates moral hazard and adverse selection costs</td>
</tr>
<tr>
<td>Product attributes</td>
<td>Minor contingency: Differentiable or commodity</td>
<td>Critical contingency: Search, experience, or credence</td>
</tr>
<tr>
<td>Buyer expertise</td>
<td>Not important</td>
<td>Critical contingency: Novice or expert buyers</td>
</tr>
<tr>
<td>Buyer power</td>
<td>Critical contingency</td>
<td>Moderator</td>
</tr>
<tr>
<td>Buyer price sensitivity</td>
<td>Critical contingency</td>
<td>Moderator</td>
</tr>
<tr>
<td>When to adopt surrogate differentiation</td>
<td>Does not inform adoption decision</td>
<td>Informs adoption decision</td>
</tr>
<tr>
<td>Appropriate for</td>
<td>Search services and experience services for experts</td>
<td>Search services and experience services for experts</td>
</tr>
<tr>
<td></td>
<td>Inappropriate for experience services for novices and credence services</td>
<td>Highly appropriate for experience services for novices and credence services</td>
</tr>
</tbody>
</table>

as the level of information asymmetry decreases. Information asymmetry decreases as buyers acquire greater expertise and as the quality of personal computers becomes easier to determine due to the proliferation of independent sources of evaluations. In terms of guidance, our model would suggest that firms in this industry should compete either on cost (as IBM has recently realized as demonstrated by its considerably lower prices for personal computers) or on appropriate core-differentiation strategies that meet the needs of specific market segments, as Apple has done with its Macintosh line. Toshiba has followed a similar strategy in its notebook computers, which are relatively still hard to evaluate for most buyers. Further, such computers are generally purchased by price-insensitive buyers, thus indicating the appropriateness of differentiation strategies.

In conclusion, the proposed information asymmetry model of generic competitive strategy choice makes three contributions: (1) it allows an examination of the impact of variations in service attributes on generic competitive strategy choice, (2) it allows an examination of the impact of
variations in buyer expertise on generic competitive strategy choice and (3) it allows the development of specific propositions and prescriptions regarding generic competitive strategy choice for service businesses. It also suggests some questions for further research to more fully understand the role of information asymmetry in competitive actions.

APPENDIX:
DETAILS OF SOME EXAMPLES ILLUSTRATING
ARGUMENTS LEADING TO PROPOSITIONS

Search Services

Proposition 1A
Retail banking: General Motors uses 24 banks on an as-needed basis and shops for the lowest cost provider of a specific service (Baker 1990).

Credit cards: American Express lowers rates to compete with bank cards (Spiro 1992).


10-Minute oil change: isolated routine function from more complex repairs; price—lowest among auto service providers—is posted; buyers can observe their cars leaving convenient locations in guaranteed time.

Automobile sales: Bean wrote that a fixed-price auto sales strategy is meant “to protect dealerships from a detested form of vermin—educated buyers … friendly smiles … disappeared after mentioning I had checked prices with a credit union” (1992, p. 11).

Proposition 1B
Restaurants: broad range of offerings at all price levels reflects buyer demand for variety of food, service type, and setting; now sit-down eateries are exploring ways to offer take-home service as well (Helliker 1992).

Retailing: Department stores distinguish themselves via fashion-service combinations. Nordstrom’s focuses on personal service. Industry observers believe loss of distinctiveness contributed to Federated Department Stores’ takeover by Campeau.

Investment banking services: York Securities assigns each customer an individual broker.
Proposition 1C

*Automobile rental:* Hertz, Avis, and others, offer corporate discounts to companies based on rental volume. Buyers contract with the rental firm offering the best discount for their car size, features, and mileage package needs.

Experience Services

Proposition 2A

*Investment banking services:* Union Carbide shopped for investment banking services for tender offers, bridge loans, equity offering and private placement (Eccles and Crane 1988).

*Airlines:* Southwest Airlines’ costs are the industry’s lowest because of a classic no-frills approach to service (O’Brian 1992).

*Insurance:* R.K. Nelson & Associates offers brand-name life insurance at bargain prices by cutting a portion of the normal agent’s commission. Persistent buyers can get better deals (Slater 1992).

Proposition 2B

*Investment services:* Fidelity Brokerage has formed a Advisor Resource Group for qualified registered investment advisors.

*Travel services:* Tours on the QE2, cross-Atlantic trips on the Concorde, and other forms of rare entertainment such as building demolitions (Jefferson 1992).

Proposition 2C

*Airlines:* Kiwi International targets informed travelers cager to save money, but without the flexibility to book in advance. The airline charges the lowest rates in a market and does not limit allocations (Rothman 1992).

*Credit cards:* American Express responded to unhappy merchants by cutting its fees and providing more marketing support (Pae 1992). It also ran a commercial—aimed at image enhancement—about its card being upscale consumers’ preferred card.

*Limited-service hotels:* Hampton Inn and Marriott’s Fairfield Inn have focused on the basics demanded by their customers and thrown out the parts that did not add value or make money (Yoshihashi 1992).

Proposition 3

*Home refinance:* A price-sensitive *Wall Street Journal* reporter, describing attempts to obtain data on title insurance and appraisal costs, noted that
buyers are frequently hampered in identifying comparable suppliers by industry referral system (Ferguson 1992).

**Insurance:** Touting full commission life insurance value, Grypp wrote “it is a mistake to confuse initial cost with true value. Life insurance is not a commodity. Consumers value the knowledge and care that a trained professional agent adds” (1992, p. 7).

**Credit cards:** Bankcard Holders of America, a consumer advocacy groups, claims that complex, obscure interest rules and billing practices cost some consumers up to 30% interest (Staff Reporter 1992).

**Insurance:** Slater noted that “total costs and benefits … depend on variables, such as future interest rates and the insurer’s ability to keep its cost down. … agents and buyers have come to rely heavily on illustrations” that may be misleading (1992, p. C1).

**Contract buying:** Companies and agencies which have bidding policies for routine purchases will suspend those policies (or have an exception policy) when buying unique services about which they are not yet knowledgeable.

**Travel services:** Novice vacationers responding to exceptionally low price travel packages or to “prizes” may find themselves victims of scams involving costly, hidden charges to claim “free” features or bait-and-switch tactics (McGinley 1992).

Credence Services

**Proposition 4A**

**Legal services:** Commenting on law firms cutting fees, general counsel of the Irvine Co. noted that in-house counsel can “increasingly demand price concessions” from their legal consultants (Stevens and Woo 1992, p. B10).

**Equipment repair:** Independent repair firms, backed by service buyers, challenge manufacturers attempts to restrict repair services to their authorized dealers (Rigdon 1992).

**Surgery:** Prudential Insurance has used quantitative performance data to select hospitals for complex surgical procedures such as transplants. It negotiates fixed fees with these hospitals (Wessel and Bogdanich 1992).

**Legal services:** Corporate buyers turn to regional law firms offering comparable quality service at lower cost than larger, big-city firms. These buyers concluded neither size nor location improved quality and did not justify a price premium (Kang 1992).

**Design services:** Because of chronic oversupply of architects, experts lacking significant buying power can identify many qualified design firms and exert price pressure to obtain low fees.
Proposition 4B

*Management consulting:* Firms or agencies with unique, critical problems will seek out consulting firms like McKinsey or Arthur D. Little. In this instance, the prior track record of these consultants is a surrogate indicator of likely future success.

*Information systems consulting:* Electronic Data Systems provides specialist information systems design, installation and maintenance services to a wide variety of clients who do not have the necessary internal expertise.

Proposition 4C

*Legal services:* A review of clients' perceptions of law firm performance highlights responsiveness as a dimension which distinguished firms for powerful buyers (Pollock 1992).

*Legal services:* First TV advertisement by any corporate law firm targets executives and legal counsel of regional companies with the phrase “Committed to protecting the values we cherish” (Geyelin 1992, p. B1).

Proposition 5

*Automobile repair:* After California investigation, Sears was accused of overcharging by telling buyers unneeded repairs were necessary (Yin 1992). The surrogate information on which buyers relied was Sears’ reputation.

*Legal specialties:* “certification has its limitations. Consumers . . . are not guaranteed the foremost experts in a field; most programs are designed so that lawyers with a minimum of qualifications in a specialty can pass” (Pollock 1992, p. B1).

*Heart surgery:* Many patients rely on referrals to pick heart surgeons even though referring physicians may not be aware of performance differences among hospitals or surgeons and rely instead on their own hospital affiliations (Wessel and Bogdanich 1992).

*Retirement planning:* Some retirement planners are using scare tactics to increase demand for their services (Schultz 1992). Others offer Retirement Planning Kits to make novices better informed of retirement planning options they offer.

ACKNOWLEDGMENT

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NOTE

1. Note that the combination strategy should not be confused with being "stuck in the middle" which implies a seller has attained neither a differentiated position nor an efficient cost position (Porter 1980).

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Bean, H.L. (1992), "What Will Make a Car Dealer's Smile Fade Fast?" Business Week, (June 8), 11.


Seller Beware


