Do you always get what you pay for? How consumers mispredict product quality

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Consumers are willing to spend thousands of dollars for luxury brand watches such as Rolex and Cartier because they are synonymous with high quality. But does this mean that inexpensive watches made by low-cost rivals must always be low quality? According to a new study in the *Journal of Consumer Research*, consumers mistakenly predict product quality based on quality consistency in other price ranges.

"Highly consistent quality in one price range is enough for consumers to assume that quality can be predicted by price. Based on this belief, consumers assume high or low levels of quality in price ranges where quality is more variable or unknown," write authors Bart de Langhe (University of Colorado), Stijn M. J. van Osselaer (Cornell University), Stefano Puntoni (Erasmus University), and Ann L. McGill (University of Chicago Booth School of Business).

In a series of studies examining quality expectations for both high- and low-priced restaurants, the authors observed that predictions of food quality are based on what consumers have learned about the average level of quality at restaurants with similar prices. Interestingly, they found that the consistency of quality was also influential in these predictions. When low-priced restaurants consistently serve low-quality food, consumers predict higher quality at expensive restaurants, and when expensive restaurants consistently serve high-quality food, consumers predict lower quality for low-priced restaurants.

These findings have implications for luxury brands and high-end businesses. For example, even though a local diner may serve a $10 steak that may be just as good as a $30 steak at a high-end restaurant nearby, consumers might assume that the inexpensive steak is much lower quality and be willing to spend much more to dine at the more expensive restaurant.

"Our studies suggest that low-cost rivals can be beneficial for the perceived quality of higher-priced brands if the quality of those low-cost rivals is consistently low. In fact, this may increase the effectiveness of the price signaling strategies that lie at the heart of luxury branding," the authors conclude.

More information: Bart de Langhe, Stijn M. J. van Osselaer, Stefano Puntoni, and Ann L. McGill. "Fooled by Heteroscedastic Randomness: Local Consistency Breeds Extremity in Price-Based Quality Inferences." *Journal of Consumer Research*: December 2014.

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