

Study shows how consumers rely on price to determine quality of products

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Narayanan Janakiraman, UTA assistant professor of marketing in the College of Business. Credit: UT Arlington

A study by an assistant professor at The University of Texas at Arlington published in the *Journal of Marketing* shows that marketers of relatively

high-priced products should consider keeping prices high, as many consumers associate high price with high quality.

Narayanan Janakiraman, UTA assistant professor of marketing in the College of Business, said these same consumers equate lower [prices](#) with [lower quality](#).

"Why are we willing to pay much more for a six pack of craft beer, a locally produced bottle of wine or a regional brand item, often choosing them over national brands?" Janakiraman said. "It's because when people prefer to buy local, they more frequently base their decisions on price as a perception of quality."

The study suggests that marketers can use this understanding of local identity versus global identity to shape consumers' price perceptions and behavior. UTA and three other universities contributed to the study.

"Consumers tend to use price to judge a product's quality when their local identity is most important to them," Janakiraman said. "When promoting high-priced or branded products, marketers can situationally activate consumers' local identity. To accomplish this objective, businesses can encourage consumers to think locally or employ local cultural symbols in advertising and other promotional material."

Findings also suggest that discount stores, such as dollar stores, should discourage consumers from using the price of a product to infer its quality.

"Discount stores, therefore, would be better served by temporarily making consumers' global identity more prominent," Janakiraman said. "Cues in advertisements that focus on a product's global appeal would help achieve that goal."

Many companies find it difficult to set and increase prices in the digital marketplace because of the pricing transparency of the internet, consumers' deal-seeking attitudes and global product availability.

For their study, Janakiraman and his colleagues conducted in-depth interviews, two field studies and seven experiments, and reviewed secondary data. In their interviews with 15 senior-level managers from Fortune 500 companies, they found that while the executives considered local or global communities in their pricing decisions, none knew when such strategies were effective or why.

Through the field studies, experiments and secondary data, the researchers found that when consumers perceive greater variance among brands, it increases their reliance on price as a cue to judge quality.

Past research has found that consumers from more globalized countries and communities, such as the United States and its larger cities, often have a stronger global mindset because they interact with many types of people and cultures and hear news from abroad. In contrast, those living in smaller population areas or from isolated or insular nations often have a stronger local identity because they have less access to other cultures.

This paper provides useful guidelines for firms to adapt strategies for different regions and address whether companies should be more locally or globally oriented.

"For products to be marketed to the places where people tend to have a more local [identity](#), such as rural areas, local flavors and ingredients can be used in the products," Janakiraman and his co-authors wrote. "As these consumers are more likely to make price-quality associations, marketers may not need to allocate much ad budget to convince them about price-quality associations."

The opposite is true as well, according to the authors, indicating that in more metropolitan areas, consumers most often don't have an established connection between price and quality. For marketers, this means that putting additional effort into differentiating their brand will help [consumers](#) associate a higher price with higher quality.

Elten Briggs, chair of the Department of Marketing, said Janakiraman's research is an outstanding asset for companies to embrace.

"The *Journal of Marketing* is the top research outlet in our field," Briggs said. "The study will contribute greatly to managers' understanding of consumer price perceptions."

Provided by University of Texas at Arlington

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