

THE PRICE/QUALITY RELATIONSHIP REVISITED: A SEGMENTED APPROACH

F. B. Seaton, Florida International University
H. A. Laskey, Western Michigan University, Kalamazoo

ABSTRACT

In their meta-analysis Rao and Monroe (1989) examined fifty-four price-perceived quality relationships. The mean effect size, $(\eta)^2$, was a statistically significant 0.12. In a subsequent study Dodds, Monroe and Grewal (1991) noted ". . . findings suggest that consumers are less likely to rely on the presence of a price-quality relationship for a particular product class in order to rely on the familiar information cues of brand and store name . . . for higher priced products that are purchased infrequently, the strength of the price cue may be diminished in the presence of other, more well-known cues." The purpose of the current study is to examine the price-perceived quality for the highest-priced of branded consumer products, namely the automobile.

The four design issues investigated by Rao and Monroe (1989) and the approach in the current study are summarized below:

- (1) price level - in contrast to most previous work a high priced product was incorporated in the design;
- (2) number of cues - it is generally assumed that single-cue studies are more likely to provide significant results. The current study is a multi-due design;
- (3) price manipulation - the larger the price discrepancy, the more likely a perceived quality effect will be observed. In the current study, the price range was relatively small, as it was determined by marketplace factors;
- (4) experimental design - as in many behavioral studies there is a controversy as to the merits of between-subject and within-subject designs. The latter is employed in this study.

The specific experimental design is a $3^4 \times 2$ conjoint analysis. The specific variables are brand, country of assembly, manufacturers suggested retail price (MSRP) and country of component manufacture. The dependent variable was perceived quality. A 16 profile, main effects only design was used. An additional advantage of this specific approach is that it allows the examination of individual responses and hence the application of segmentation methodology (Green and Krieger, 1991).

In this exploratory study, 113 undergraduate business students provided responses. In addition to the conjoint analysis, information as to auto consumption experience, product involvement, price perception and demographics was elicited. The data were analyzed using SPSS. The internal quality indicators of the analyses were excellent (including the Kendall's tau for the four holdout profiles).

The mean utility values for the four levels of MSRP are as follows:

<u>MSRP</u>	<u>Utility value-perceived quality</u>
\$18,000	-2.16 (statistically less than the 3 higher prices)
\$19,000	+0.81
\$20,000	+0.39
\$21,000	+0.96

This provides, at best, weak support of the price-perceived quality relationship. A k-means, cluster analysis of the MSRP utility values provides the following 3-cluster solution:

<u>MSRP</u>	<u>Cluster 1</u> (n = 11)	<u>Cluster 2</u> (n = 24)	<u>Cluster 3</u> (n = 78)
\$18,000	-10.60	-5.82	+0.16
\$19,000	-4.35	+6.42	-0.19
\$20,000	+3.49	-0.51	+0.22
\$21,000	+11.45	-0.09	-0.19

Cluster 1, representing 10% of the sample, indicates a strong price-perceived quality relationship. However, the mean utility values for clusters 2 and 3 are not consistent with the price-perceived quality relationship. In contrast, the other mean utility values were quite consistent across the three clusters. An attempt to distinguish the clusters using the price-quality schema of Lichtenstein, Ridgway and Netemeyer (1993) indicated no relationship between cluster membership and price-quality scale values.

In conclusion, the findings support the notion that for high-priced products of well-known brands, the price-quality relationship is not descriptive of the quality perception process for most consumers. Despite this observation, a small proportion of respondents (approximately 10%) indicated a strong price-perceived quality relationship. Overall the relationship is tenuous, but within one segment it is strong.

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