Understanding Consumer Perception of Price-Quality-Value Relationship

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Abstract: In India as the level of competition keep on increasing day by day for automobile market, it is essential for every automobile company to understand customer insight in order to provide best value judgement. Thus, they need to understand how consumer compares price-quality-value of an automobile. Therefore, the objectives of this research is to study the relationships of perceived quality, perceived value and perceived price that will affect consumers purchase decision towards cars. Survey using convenience sampling was done at Ludhiana city. Questionnaires were distributed to 320 respondents at the sampling location. Finally a sample of 280 used for final analyses. The study revealed a positive impact of perceived price over perceived quality; perceived quality over perceived value and a negative impact of perceived price over perceived value. The results from this research provide a platform for Ludhiana automobile makers to appreciate consumer value judgement and how it affects their purchase decision. In order to ensure that the findings are illustrative and convincing, future research should include more constructs like brand image of an automobile, customer experience, culture etc.

Keywords: Perceived Quality, Perceived Value, Perceived Price, Automobile marketing.

I. INTRODUCTION

Perceived value is one of the strongest and fundamental marketing approaches for any product or service. It is a matter of opinion and it is completely in the consumer's kingdom. It is defined as the consumer's overall assessment of the utility of a product based upon the perceptions of “what is received and what is given” (Zeithaml 1988, p. 14) this definition shows a clear relation of price and quality wherein perceived quality involves consumer judgement about the extent of superiority of the product (Zeithaml 1988) and used as a measure of excellence or a state of being free from defects, deficiencies and significant variations and perceived price is the consideration given in exchange for the transfer of ownership. It is a value that will purchase a finite quantity or other measure of a good or services. In general, price is determined by what a buyer is willing to pay, a seller is willing to accept and the competition allowed. Zeithaml (1988) equates value with price by saying “value is price” (p. 13) and another important highlight was expressing value as a trade-off between perceived product quality and price. It clearly shows the relationship between price, quality, and value. She also argued that some consumers perceive value when there is a low price and others perceive value when there is a balance between quality and price. Thus, for different consumers, the components of perceived value might be differentially weighted. The concept of customer value has also drawn increasing attention from both industry executives and marketing academics as a barometer of long-term business performance (Reichheld 1993; Woodruff 1997). Indeed, consumer perceptions of price, quality, and value are considered as core determinants in analysing shopping behaviour of consumer and choice of a product (Jacoby and Olson 1985). In 1985, Dodds and Monroe gave an overview of the relationship between price, quality, and value and found that price has stronger effect on value only when price is present as a cue. Quality and value as cognitive responses to a service experience while satisfaction is an emotional response (Petrick 2004). McDougall and Levesque (2000) incorporated perceived value and perceived quality into customer satisfaction models while Chen, Gupta, and Rom (1994) related perceived price and perceived quality in service operations. Though there is plethora of work available on price, quality and value relationship where some studies show positive relationship among these constructs like Oh (2000); Hanzae and Yard (2010); Zielke (2011); Judd, V. C. (2008); Edward and Sahadev (2011) regarding services and food products but Chen and Dubinsky (2003); Shifflet and Bhatia (1997); Peterson and Wilson (1985) showed negative relationship among aforesaid constructs with respect to services as well as products. Thus, existing literature itself gives contradictory results by...
showing both positive and negative relationship. Moreover, in the past, most research articles have considered non-durables or services for studying these relationships. Hence, there is a need for revisiting price, quality and value relationship. As individual being an economic/rational consumer always desires to make an optimal assessment of price, quality and value of the product so bought, which would further help in future buying of the same or similar products/services. The present study aims to examine whether at high level of quality, price-value relationship is stronger and vice-versa. Thus an economic buyer shall always end up with a better quality, reasonable price and maximum value so as to achieve greater satisfaction. In this backdrop, the present study intends to examine the impact of price quality on value.

II. NEED OF THE STUDY
Pertinent literature reveals that substantial amount of research has been conducted on price, quality and value relationship. The literature appeared to have examined interrelationships among these relationships. In this regard, most relevant studies have been considered for analysing the research gap and thus, establishing the basic rationale for conducting research pursuit in this direction. To quote few, Chen, Gupta, and Rom (1994) investigated the price-quality relationship in one service setting and ignored its impact on value and Chang and Wildt (1996) studied the same relationship in a controlled laboratory experiment, thus restricts its generalisibility. Similarly, Heinonen (2004) investigated the importance of time and location with respect to traditional value dimensions whereas Petrick (2004) exhaustively studied value and quality as antecedents of satisfaction for studying behavioural intentions of cruise passengers’ Thus overlooked prices. In 2005, Matzler et al., analysed the relationship between shareholders value and customer satisfaction without considering quality and price, which are the main antecedents of value whereas Estelami (2008) examined the extended use of price-quality cue in financial services and in the same year Judd, attempts to measure price-quality correlation for food products and states that relationship between price-quality is important for those consumers who perceive that high price leads to high quality. Thereafter, Gallarza, Gil-Saura, and Holbrook (2011) presented a detailed conceptual and work on value and its relation with quality and satisfaction but did not consider price as important antecedents of value. Further, Blocker (2011) highlighted value as culturally transferable construct. Ishaq (2012) investigated corporate image, perceived value and service quality relationship in customer retention strategies in telecommunication sector thus ignored prices. Hence, the present study is an offshoot of the related literature pertaining to price, quality and value relationship. As, many previous studies examined the relationship between price-value, price-quality, quality-value, brand image-value, satisfaction-value etc but mostly in service sector or for convenience products, till date very little work has been done in automobile sector. As we know that in India, automobile industry is the most lucrative industry and competition is heating day by day in this sector with a host of new players coming in like Audi, BMW, and Porches etc. In this sector technology also changes very frequently and automobile, being a status symbol call for heavy investment thus needs proper examination of price-quality-value before making further decisions in this regard.

III. HYPOTHESES DEVELOPMENT
Consumers use price as an indicator of quality and majority of researchers focused on concentration of perceived product quality on price. Numerous research studies support the general acceptance of price-quality relation like Lichtenstein and Burton (1989), Tull, Boring, and Gonsoir (1964), McConnel (1968), and Monroe and Krishnan (1985). However, Gerstner (1985) assessed the degree of positive correlation between quality and price for 145 products and concluded that the relationship between price-quality and price appeared to be product specific and generally weak. In 1994, Chen, Gupta, and Rom studied price-quality relationship and found that this relationship is service specific. Dodds, Monroe, and Grewal (1991) and Zeithaml (1988) disclosed positive relationship between price and quality but this relation does not hold if more cues are available. In several studies like Oh (2000), Hanzaee and Yard (2010) and Noel and Hanna (1996) the overall association between price and quality is positive but Peterson and Wilson (1985) argued that the relationship between price and perceived quality is not universal and the direction of relationship may not always be positive. Thus, on the basis of above discussion it can be hypothesised that:-

**H1:** perceived price has significant influence on perceived quality.

Perceived value has its roots in equity theory, which refers to customer evaluation of what is fair, right, or deserving for the perceived cost of the offering i.e., price (Bolton and Lemon 1999). So, there exists relationship between price and value and this relationship is supported by pertinent literature. In 1994, Li, Monroe, and Chen clarified that expected price significantly influences perceived value. They revealed that higher the expected price, higher will be perceived value. But Dodds (1991) disclosed that price has a negative effect on perceived value. Grewal et al. (1998) highlighted that price exerts significant influence on perceived value. Similarly, Oh (2000) observed significant role of price in customer value process. Thereafter, in 2001 Varki and Colgate concluded that price is one of the most important components that drive value. Zidke (2011) also showed that price level has a strong impact on value. On the contrary, Shifflet and Bhatia (1997) and Chen and Dubinsky (2003) declared a negative correlation between price and value. Thus, in the light of preceding discussion it is proposed that:

**H2:** perceived price has a significant impact on perceived value.

In general, quality is an absolute measure whereas value is more relativistic and individualistic (Zeithaml 1988; Caruana, Money, and Berthon 2000). Previous researches have also consistently shown that quality leads to value (Petrick 2002 and Zeithaml 1988). Cronin, Brady, and Hult (2000) argued that quality and perceived value are cognitive responses to a service experience. Monroe (1990) considered quality as being an input of value. Likewise, Edward and Sahadev (2011); Chen and Dubinsky (2003) supported relationship between service quality and customer
value. Further, in Monroe and Chapman's (1987) model perceived quality is positively related to perceived value. Thus, it can be hypothesised that:

h3:- perceived quality has a significant positive impact on perceived value.

IV. SELECTION OF RESPONDENTS

Ludhiana city of Punjab state was selected as the study area primarily because World Bank has ranked Ludhiana as having best business environment in India and it can alone produces a large portion of auto and two wheeler parts. Not only Indian, but many German cars like BMW and Mercedes are exclusively produced in Ludhiana to satisfy world requirements (www.wikipedia.com). Every possible effort was made to contact respondents so as to generate information pertaining to automobile they use. Convenience sampling was used to contact respondents from Ludhiana city. In Convenience sampling respondents are selected at the right place and at the right time to get requisite information. Respondents were told that the survey was being conducted with the intention of understanding their perception about price-quality-value relation for automobile they use. The respondents were then provided with the description of items measuring price-quality-value. The items were measured on 1-to-5 rating scales ranging from "strongly agree" (5) to "strongly disagree". The design of the questionnaire items used to measure variables was based on existing studies on price, quality and value. In the instrument, items pertaining to quality, were extracted from Zeithaml, Berry, and Parasuraman (1996); Caruana (2002); Yang and Peterson (2004). Items of value were borrowed from Choi et al. (2004); Cronin, Brady, and Hult (2000). Price was measured through indicators employed from Sirdeshmukh, Singh, and Sabol (2002); Urbany, Bearden, and Weilbaker (1988). Initially a total of 335 survey instruments were distributed of which 35 provided unusable responses, resulting in the final sample size of 300. Finally, after proper data cleaning 280 responses were considered for analyses.

V. ANALYSSES

Before applying any statistical test, outliers were identified and deleted simultaneously and after the deletion of outliers, normality of the data was determined and biasness was also checked. Internal consistency of the data was analysed from the Cronbach’s alpha value for which according to Malhotra (2009) the value of 0.50 or above is considered as an acceptable criterion. Confirmatory factor analysis (CFA) was performed to assess fitness, reliability and validity of the study constructs. Finally, structural equation modelling was used to test hypotheses. At the outset, 20 outliers were identified through box plot analysis and simultaneously deleted from the datasheet and following deletion, normality of the data were established through Q-Q plot, skewness, and kurtosis tests. Skewness and kurtosis was observed and found to be within the limits of -1 and -1. The existence of CMV was ruled out by a marker variable technique. As the common method variance is the square of that value, 0.3720=0.1383. Therefore, the Common Marker Variable technique suggests that there is no significant common method bias in this data since the calculated variance (13.8%) was below 50%.

In order to refine the scales, we ran a measurement model comprising all the latent constructs. The model was found to qualify goodness-of-fit, as various fit indices are within the prescribed limits, i.e., CMIN/df below 5; GFI, AGFI, CFI, NFI and TLI closer to 0.90; while the RMR and RMSEA are below .08. Composite reliability, convergent validity and discriminant validity were also assessed using the CFA.

Table 1: Reliability and validity of latent constructs

<table>
<thead>
<tr>
<th>Construct</th>
<th>AVE</th>
<th>Composite Reliability</th>
<th>Cronbach Alpha</th>
</tr>
</thead>
<tbody>
<tr>
<td>CV</td>
<td>.660</td>
<td>0.96</td>
<td>0.97</td>
</tr>
<tr>
<td>PQ</td>
<td>0.60</td>
<td>0.96</td>
<td>0.92</td>
</tr>
<tr>
<td>PP</td>
<td>0.76</td>
<td>0.94</td>
<td>0.93</td>
</tr>
</tbody>
</table>

The rule of thumb for construct reliability estimate is .70 or higher (Fornell and Larcker, 1981) and in the present study, it is above .90 for all scales, thus indicating the data’s internal consistency. The AVE examined the constructs, which were above .50, thus providing support for the existence of convergent validity (Table 1). Further, discriminant validity was assessed by comparing the AVE with the squared correlation between constructs. The squared correlation between a pair of constructs was less than AVE in almost all the cases, thereby suggesting discriminant validity (Table 2).
Table 2: Discriminant Validity of Latent Constructs

<table>
<thead>
<tr>
<th>AVE/Alpha</th>
<th>CV</th>
<th>PQ</th>
<th>PP</th>
</tr>
</thead>
<tbody>
<tr>
<td>CV</td>
<td>(0.66)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PQ</td>
<td>0.01</td>
<td>(0.60)</td>
<td></td>
</tr>
<tr>
<td>PP</td>
<td>0.37</td>
<td>0.00</td>
<td>(0.76)</td>
</tr>
</tbody>
</table>

Note: AVE is above the diagonal: Squared Correlation below the diagonal.

Finally, SEM was conducted using AMOS (20.0) to assess fitness and to test the hypothesized relationships in the model. The overall fit measures suggested that the data provide a good fit for the hypothesized causal model (Bagozzi and Yi, 1998; Baumgartner and Homburg, 1996) (Table 3).

TABLE 3: RESULTS OF STRUCTURAL MODEL

<table>
<thead>
<tr>
<th>Constructs</th>
<th>CMIN/df</th>
<th>p</th>
<th>GFI</th>
<th>AGFI</th>
<th>NFI</th>
<th>CFI</th>
<th>TLI</th>
<th>RMSEA</th>
<th>RMR</th>
</tr>
</thead>
<tbody>
<tr>
<td>Final model</td>
<td>1.926</td>
<td>.000</td>
<td>.942</td>
<td>.911</td>
<td>.820</td>
<td>.880</td>
<td>.949</td>
<td>.058</td>
<td>.047</td>
</tr>
</tbody>
</table>

VII. RESULTS FROM HYPOTHESES TESTING

On the basis of SEM results, the framed hypotheses have been tested. It was found that H1, H2 and H3 are supported, because all these paths are above .50 and ‘p’ value is also significant. However, H2 shows negative relationship as β = -.098 (Figure 1).

Figure: 1

Though H2 has significant “p” value but with a negative beta (β = -.098, p = .023) which shows that price do have an impact over value but negative. Given this, no matter price plays a significant role while estimating value but lower price does not provide good value every time because it is not only the monetary cost which a buyer is paying it the cost of time spent, efforts made to make a purchase, cost of accessories attached, reliability of car etc. So, Customer value is always positive when quality perceptions are superior to the perceptions of financial sacrifice made by customer and vice-verse.

VIII. RECOMMENDATIONS

Based on the results of the survey some marketing implications can b drawn for automobiles. Although, the automobile industry has invested heavily in improving customer value, still lacking for customer based strategy development. Quality increases value as it act as an input of value Estelami (2008) in present work also there exists positive impact of
quality over customer value but not very strong, so to increase quality perspective of customers' automobile companies should improve technical quality of their automobile, provide inexpensive after sale service, availability of spare parts in reasonable prices with warranty, interact with customer in more supportive manner etc. In addition, Price receives a serious consideration in automobile marketing. This study revealed how perceived price become involved in consumers’ value judgments. Industrial marketers should consider improving perceptions of consumer value by counter-balancing price and product offerings. No doubts, automobile industry's pricing strategy is mostly based on demand-volume which overrules the consumers’ psychological feeling about the price that is always a deciding factor and may exert on whether to buy the product or to switch to competitor products. Additionally, in India cars are still signalled as a prestige good and are convey as a symbolic belief. So, automobile marketers could build a better image of their respective brand so that customers feel personal connection. Moreover, marketers could encourage cause-related marketing strategies where social values are added to the automobile in ways that elicit positive customer response. Marketers could create such advertising themes that emphasise relevant aspect of value delivery.

IX. LIMITATIONS AND DIRECTIONS FOR FUTURE RESEARCH

While our data supported the perceived quality, perceived price and customer value relation, we used convenient sampling which sometimes, limits the generalizability of our findings. Future studies should conduct by using finest sampling technique in terms of marketing. Further studies could also be extended to beyond automobile that may include high contact services such as mobile sets. Most of times it is not only focal product price which is considered in making value judgement but alternate prices also like reference prices also. Future research could also check role of brand image on value judgement of automobiles. Additionally, it would be interesting to examine relation between quality dimensions (technical, interaction and functional quality) and value dimensions (economic, relational and functional value) of automobiles.

CONCLUSION

As consumer is the kingpin in every marketing transaction and only the consumer can determine the value. Whenever a consumer perceives significant value they will tend to pay a higher price for products and services. In other words, customers must perceive they are receiving value for their money and time. Value can also be termed as alleged benefits from purchasing a specific product. Benefits may include the reputation of the automobile company, the brand name, after sale services of automobile companies, and reliability of the automobile and so on. Additionally, in today's world it is essential to sell value, not just a lower price product automatically associate to value. Value shows a negative relation with price because sometimes from customer point of view price is not consider as a monetary sacrifice only but time sacrifice i.e., time spent to make a purchase, efforts made to get information about the product, efforts and time spent to analyse available information of product as these non-monetary sacrifices are become greater in customers mind and they stated relating value with non-monetary cost. Thus, value is also related to cost which is more than the price. It includes other than monetary. Therefore, automobile companies need to consider the total cost to the consumer when establishing price.

REFERENCES


