

The Price Quality Friendship

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Foreword

"The Price Quality Friendship" is a research paper written for a marketing course during my MBA. It analyzes consumer buying patterns and how real world buying decisions are made. I had conducted various on the spot consumer interviews to reach to some conclusions and models depicting a purchase.

"High Price High Quality - Low Price low Quality" is an age old saying and this is an attempt to evaluate this rule of thumb.

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The General Premise

While attending a seminar on “Selling Excellence” the ending remarks of the speaker triggered a series of questions in my mind. While answering a question, the speaker quite adamantly said, if it is cheap it is of low quality. This leads to my topic of discussion, “Is high price a criterion for high quality” or is it always true that high price ensures high quality and low price yields low quality.

How often in our purchase decisions have we reverted to this generalized concept? We feel safe when we base our buying decisions on this foundation. The decisions which otherwise, may prove to be difficult, suddenly become easy and all those theories about the complexities of consumers’ purchase decisions, apparently become useless. However, it is not as simple as it looks, there are events happening in a consumer's mind even for a simple rule like "High Price High Quality, Low Price Low quality". Let us now analyze these events and try to find a few answers.

What Do Consumers Want?

We will start our analyses from a basic question, what do customers want? Customers have their own reasons for buying a product, they purchase goods that fulfill their need and their requirement in the best possible manner and most of all they want quality. But, what do we really mean by quality? And who defines quality?

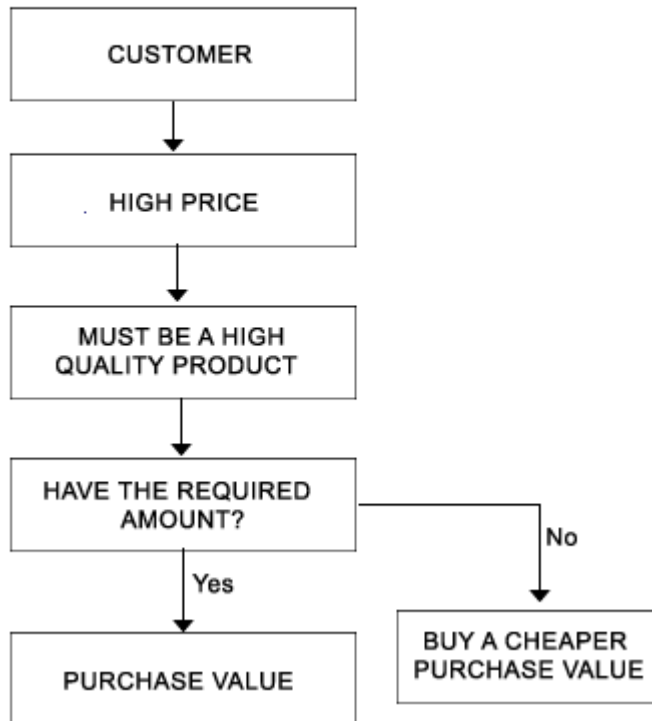
Philip Crosby, the writer of “Quality is free” has given a very good definition of quality. According to him quality is, “Conformance to Requirements”

There are other definitions too but this definition is very close to what I had in mind. I would like to make some addition to this:

“Quality is the conformance to requirements and it is different for different people, as their requirements are different”

The sole authority in defining this quality lies in the hands of the customer. Now let's look at the following charts to understand the customer's decision process.

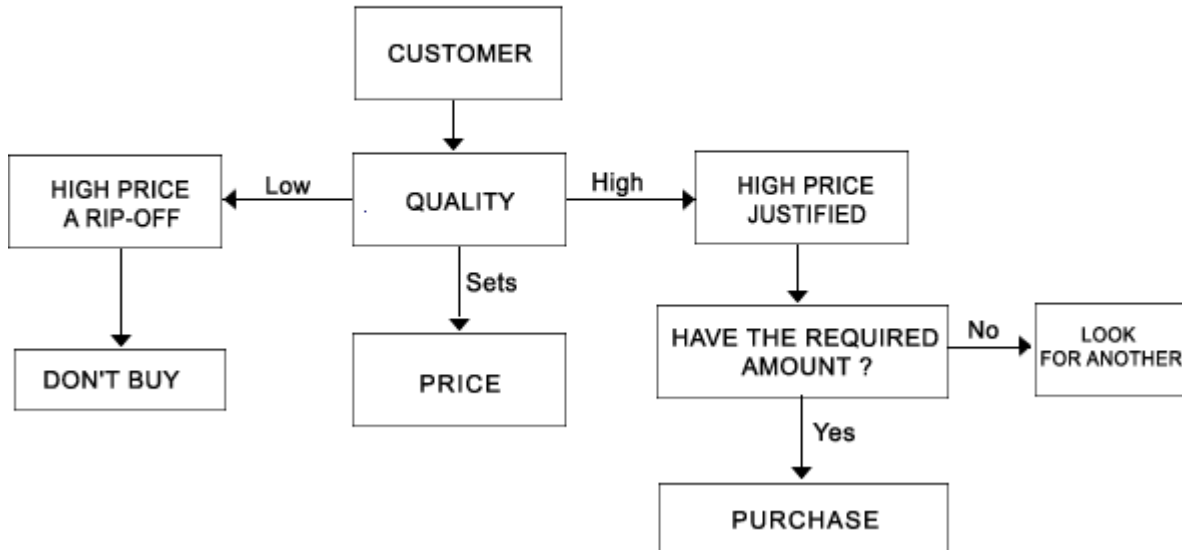
A NORMAL PURCHASE



This is a Normal Approach. The customer after looking at the product's high price hypothesizes its high quality and upon having the required amount of money, buys the product. Otherwise, he will opt for a cheaper good. According to him, this product is of a lower quality than the one with the high price tag.

Now, let's look at the Ideal Approach.

AN IDEAL PURCHASE



This is an ideal approach when the customer defines quality and sets the price. If the product is in conformance to his requirements, he buys it else he would consider that high price just a rip-off.

However, there are certain instances when you cannot determine quality or when two or more products of similar nature are fulfilling your requirements. Then we can change the above pattern slightly to the following:

THE MODIFIED MODEL



Under the Modified Model, the customer makes his decision on the basis of brand image, this brand image assures him the high quality he requires and justifies the high price. In this way, a strong brand image becomes the ultimate decision making tool for the customer. If I am buying a pair of sneakers and I have three different companies' offering a similar product, having the same price tag and if one of them is Nike and the other two are unknown then I will surely put my money on Nike. In the same way customers (belonging to the BMW's target segment) who have never experienced a BMW, will be willing to pay a premium because the name BMW gives assurance of the quality and distinction which these customers demand. It is worth noting that customers have not experienced the product before and what they are buying is just an assurance, a promise, to get quality against a premium price. At this point a strong brand image and a positive public opinion about the product can play an influencing role in customers' decision making process. It is the trust in the brand that counts.

This trust, supplemented by user testimonials, is not developed overnight but over the passage of time when the brand constantly delivers quality. If such a company brings out a

completely different range of products then this trust is automatically inherited by the new offerings and if this new offering fails to meet user expectations then the consequences will be experienced by all other offerings. The same applies to a negative perception where one product can damage the perception of others. That is why large and established brands don't often venture into unknown territories with the same brand name.

Looking for Answers

"In 1991 the American Society for Quality Control published results of a Gallop survey of consumers in the U.S, Japan and Germany. This was the latest of several surveys by the ASQC which had learned from previous surveys that Quality was a significant determinant of what customers buy. In all the three countries, consumers were willing to pay substantially more for a product if they perceived it to be of Outstanding Quality... In the U.S it is the word of mouth, where as advice on quality is crucial to the success of a product or service, In Japan it is the function while in Germany it is price.

In the United States quality is determined in priority sequence first by brand name, then by word of mouth and next by past experience and finally by performance. Out of Eight categories price was the seventh. In Germany there are four categories of quality determinant; price, well-known name, appearance and durability.

For the Japanese they are; well-known names, performance, ease of use and price. When asked what criteria helped them in their buying decisions, both Germans and Americans cited price 1st; followed by quality, third for the United States was performance and for the Germans appearance. The Japanese responded by citing performance first, price 2nd and ease of use 3rd.

(Adapted from, TQM for Sales and Marketing Management, By: James.W.Cortada)

In the light of the above excerpt only in Germany price is the foremost determinant of quality. While in Japan and United States brand name is given priority. (Remember the Modified Model). Another important point mentioned in this informative extract is, that (for

Germans and Americans) price helped people in their buying decisions. “Feeling Safe” as explained earlier is the keynote of this statement.

Then, Does Brand Image Determine Quality?

At times, companies wholly focus on establishing brand loyalty and a reputable Image and when this is achieved brand extension is introduced. Consequently, the price of the related product climbs. The customer, sticking to the method of “Brand Image as a quality determinant”, experiences another blow when he finds that his favorite brand is carrying a degraded product.

Sometimes the Brand Image does not do justification with the high quality claim Associated with it. Parrier, a highly reputed company, is famous for its high quality water and based on that claim it charges a high price. Parrier’s claim to be the quality provider was nullified when traces of benzene were found in its bottled water. All that positioning regarding the famous spring and its pure and sparkling water was blemished. People became aware of the pitfalls associated with the high price and high quality claims. However, companies producing bottled water are still minting money by using the same technique of quality and price.

The brand image effect is also visible in many Franchises where the licensed brand user tarnishes the highly acclaimed brand image. If a franchise fails to provide the same level of satisfaction then the brand's image is in trouble. Therefore, companies awarding such licenses should keep a close eye on these franchises.

A Reputable Company - High Price, High Quality Product Would You Buy?

Taking our discussion further, let's consider a situation in which a reputed company has introduced a quality product and charged a high price for it, thus adopting a premium value strategy. Every variable or determinant is in the right place but still the product fails to earn respectable gains. Why? It is due to the misperception or misrepresentation of quality. It is also attributable to the conceited behavior of the management. We simply overlook our

customer's opinions, needs and wants and since quality is defined by the customer, our definition of quality falls short.

The Management of Walt Disney company had to face a similar problem in the early days of its Euro Disney venture. The company was widely respected, the quality of their products were highly praised and all this made the management adopt a skimming price strategy this leads us to the price positioning chart which has played a vital role throughout my discussion.

Price Positioning

	HIGH PRICE	MEDIUM PRICE	LOW PRICE
HIGH PRODUCT QUALITY	PREMIUM STRATEGY	HIGH VALUE STRATEGY	SUPERB VALUE STRATEGY
MEDIUM PRODUCT QUALITY	OVER CHARGING STRATEGY	AVERAGE VALUE STRATEGY	GOOD VALUE STRATEGY
LOW PRODUCT QUALITY	RIP-OFF STRATEGY	FALSE ECONOMY STRATEGY	ECONOMY STRATEGY

(Source: Principles of Marketing by Philip Kotler)

By looking at this chart we can conclude that management positioned Euro Disney in the top left corner of premium strategy. The hotels, the food, the rides all of them were highly priced. The prices charged in this resort were higher than the prices charged in the Florida or Tokyo Disney World.

Robert Hartley in his book "Marketing Mistakes" writes: "Euro Disney correctly saw itself in a monopoly position; it correctly judged that it had a relatively inelastic demand curve with customers flocking to the park regardless of rather high prices. What it did not reckon with, was the shrewdness of European visitors, because of the high prices they shortened their stay, Avoided the hotels brought their own food and drink and bought only sparingly the Disney merchandise".

Here, the management adopted a selling approach instead of a marketing approach (see Theodore Levitt's, Marketing Myopia). People who went there had a need of hunger and shelter. They quenched their hunger by bringing food with themselves and met with the

shelter need by avoiding or shortening their stay. The best product is one, which defines a customer's need and quality is perceived on the basis of this need. The attention then, with very high prices, was given to the wealthy Europeans and with a high break-even point to meet, Euro Disney suffered huge losses. The central idea is that the creator or provider perceives quality differently than the consumer and when the perception of both parties synchronizes the product becomes an ultimate success.

Your Preference, Your Liking, Your Choice!

Going to an expensive hotel and paying a huge bill is no criteria for getting quality food, the kitchen of a 5 star hotel may not be much cleaner than that of a meager 3 star hotel and even if it is, I still might not go to a flamboyant hotel, I may prefer eating a greasy burger from a sleazy place. If that burger is satisfying my appetite and pleasing my taste buds, I would definitely go for it. This reveals another interesting point; quality is at the heart of satisfaction. People do what they prefer and they prefer what they like. I have tasted a Wall's Cornetto and I don't like it. I will not buy it because something, which is quality for someone, is not quality for me. An expensive Italian suit may not provide me with the same satisfaction than a cheap locally made suit does. Even if it assures exceptionally high quality I will still not buy it, because I am defining my own quality and not the producer. In a nutshell, my interpretation of quality is different than yours.

Looking in the Mirror

While concluding this lengthening discussion, I admit that, to an extent, a price and quality relationship exists. Quality raw materials, labor and machinery don't cheap. Nonetheless, the effect of price-quality relationship is more severely experienced in a customer's mind than it actually is. We have found this relationship to be helpful in making complex buying decisions. High price is no criteria for high quality, remember the Price Positioning chart, a company can provide a high quality product at a medium price (High Value Strategy) or

even at a low price (Superb Value Strategy) to capture the market, degrade the competitors and increase its market share.

Nevertheless, the price-quality relation has always existed, it exists now and it may still exist in future. Man has always been an ease-loving animal and it is because of this indolent behavior that he has used this price-quality relation in his decisions. What if I don't know anything about the product? I have never heard of the brand name and I have never used the product before in my life. Then, what would I do?? Count on the suggestions of those who have used it or think otherwise. I can tell you this, that if it were a Sarree / Dress for my mother I would not inquire about the price to set the right quality, I would certainly buy the one which my heart says to buy and my eyes love to see!!!!