Are Price, Quality, and Value Mutually Exclusive?

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INTRODUCTION

A typical scenario that we see every day is a consumer goes to an electronics store to purchase a new television set. The consumer spends almost an hour listening to the salesperson, looking at and comparing different models. The consumer selects a model priced at $585. Did the television cost the consumer $585? Realistically, there is a difference between the actual dollars and the cost to the consumer. As consumers we expend time and energy in the purchase which adds to the cost of the product. The cost to the consumer, then, must include all the resources that were used to make the purchase.

Today's consumer is bombarded with advertisements in all media, direct mail offers, and telemarketing offers for telephone long distance service. One of AT&T's ads boasts a rate of 7 cents per minute for long distance. The price is 7 cents but that is not the cost. Whether the ad is a commercial on television or an ad in a printed document, there is a small caveat printed - the consumer will be billed a monthly charge of $5.95 per month if they sign up for this long distance rate (Teinowitz, 1999). The actual cost to the consumer is a good deal more - $5.95 per month plus the 7 cents per minute.

This is the difference between the price and the cost.

We take this concept one step further in this paper – What was the value? Did the value equal the cost? There are numerous factors involved when we begin to discuss the issues of value, cost and price.

The value of anything is perceived by the customer, not the manufacturer or the vendor. Value is an abstract construct that the consumer determines based on a number of factors. The degree of risk in the purchase is also a factor in perceived value. Consumers must perceive that they receive a higher value from one vendor or from one product than another in order to purchase it.

The cost includes the actual price of the product or service but it also includes the 'hidden' costs, such as the time it takes to travel to the store or the time it takes to complete the transaction.

The following pages more fully discuss the issues of cost, price and value.

Gutman’s Means-End Chain Theory

A number of means-end models in the area of consumer behavior attempt to describe how consumers make certain behavioral choices (see Olson & Reynolds, 1983 for review). One model which has received the most attention and support and which seems to be the most applicable to the performance appraisal problem is that developed by Gutman (1982).

The Theory, Gutman’s model rests on the fundamental assumption that values exert powerful influence on people’s behavior (Gutman, 1982; Rokeach, 1968, Yankelovich, 1981). Values are the ultimate source of the choice criteria people use in selecting among alternative products, behaviors, of other members of a particular stimulus class (Howard, 1997).

Gutman’s model assumes that “... people cope with the tremendous diversity of (stimuli) that are potential satisfiers of their values by grouping them into sets or classes so as to reduce the complexity of choice” (Gutman, 1982, p. 60). The central focus of Gutman’s model is that individuals choose actions that produce desired consequences and minimize undesired consequences. Gutman suggests, following Rokeach (1968), that values provide consequences with positive or negative valences. Thus, values can be viewed as the key factor underlying a person’s categorization process. Gutman’s model offers an explanation as to why certain attributes are salient. He avows that these attributes are simply an intermediate, and not a casual factor.
The full model is exhibited in Figure 1. Essentially, it can be thought of as a three-step chain:

Attributes - - - Consequences - - - Values.

P1 (a): Value is enhanced to the extent of which the level of ego matches the perception of product quality.
P1 (b): Perceptions of value are enhanced to the extent to which the levels of attributes equate to the consumers “schema”.

Attributes are the most solid components of this perceived classification. They are defining terms or descriptive characteristics of a given energizer. For example, “compact”, “full size”, and “luxury” would be considered attributes of certain automobiles. At the next highest level of distinction are outcomes. These represent the personal meaning or compromise of the attributes possessed by a certain animation. For example, a “luxury” automobile might possess the outcome “impresses others”. Finally, at the highest level of distinction are values. These represent end states that are important to one’s being. They are closely tied to one’s idea of self. Continuing the previous examples, a “luxury” automobile might “impress others” and in turn achieve the value “self-esteem”. That is, the more personal interpretation of the lower level outcomes makes the consumer feel better about his/her self worth. Thus, “self esteem” may also be the over riding value attitude here as well.

The Gutman model hypothesizes that an individual creates arrays (categories) of stimuli with certain attributes. These stimuli will be instrumental in helping him or her achieve desired outcomes. Which in turn move the individual toward valued end states. Values are seen as the ultimate casual factor in an individual’s categorization processes. These result in a series of categories that make up an individual’s “schema”. Cohen (1981) describes this schema as “. . . a hypothetical cognitive structure that integrates existing information into a more cohesive and directive organizational unit”.

It should be noted that some disagreement exists in the literature concerning the role played by evaluations of alternatives in choice processes (cf. Bettman, 1981). In Gutman’s conceptualization, an individual’s cognitive structure is based upon evaluation processes (i.e., a stimulus is categorized according to attributes that are evaluated to lead to valued end states). Gutman’s model appears to be more in line with the more traditional choice models (e.g., Howard & Sheth, 1977; Engel, Blackwell, & Kollat, 1978). However, this is in disagreement with Zajonc (1980) who argues that evaluation (effect) and cognition (e.g., categorization) are physiologically and psychologically independent.

Cohen (1981) advances a way to reconcile these differences. Although he basically takes the position that affect or evaluation should be treated as residing in categories themselves, he points to a factor - - values - - that may be a key in determining which argument is correct.

When the activated schema is simply a framework influenced by connection or meaning prompt, then the schema serves mainly as a perspective for revisiting and interpreting events. When, however, the activated schema is instigated by goals and values or the need to take some action, in the broadest sense what we will be describing is judgment based on a type of matching process in which object categorization and evaluation are implicitly linked (Cohen, 1981).

Cohen’s argument is similar to that of Howard (1977) who differentiated three types of choice: routine response behavior, limited problem solving, and extensive problem solving. In the latter two cases, evaluation plays a central role while in the former case the role of evaluation or affect is much less direct. It would appear that schema influenced by personal goals and values are certainly closer to the latter cases than the former. Therefore, we would expect evaluation to play an important role in schema formation.

Finally, Gutman’s model also serves as a source for mapping the cognitive structure of an individual.
P2: The greater the degree of customization the stronger the relationship between perceived value and price.

**Value**

Perceived value is one of the strongest marketing approaches for any product or service. For instance, Sinha and DeSarbo reported a study that investigated perceived value of compact cars using multidimensional attributes, including: brand, reliability, mileage, safety features, performance, depreciation, cost factor and average price (Sinha and DeSarbo, 1998). They found that the Subaru Impreza, Nissan Sentra and Dodge Neon were considered good values but the Honda Civic, Mitsubishi Mirage, Eagle Summit and the Mazda Protégé were considered poor values (Sinha and DeSarbo, 1998). Consumers perceived more value in specific cars as a result of price, accessories, and reliability of the car.

Value is a matter of opinion and it is completely in the consumer's realm. It does not matter how much value the manufacturer or vendor thinks the product holds, if the consumer does not agree, they will not purchase it. The consumer's perception of value must be considered when pricing a product. “Value over time (lifetime value) of a customer is measurable and, in many cases, substantial” (Weinstein, A., and Johnson, W. C. (1999).) Schofield asserted "If you understand the customer's perception of the value of your product or service, you'll be less likely to price it out of the market. Access customers' individual preferences and their perception of product features and benefits, convenience, quality, company image, and competitive products” (Schofield, 1999).
There are questions that can be asked to determine the individual preferences of customers, such as:
How would customers describe what they get for their money? (Schofield, 1999).
Do customers save time or money by purchasing that specific product or service? (Schofield, 1999).
Who are the competitors and how much do they charge? (Schofield, 1999).

![Diagram](image.png)

**Figure 2: Designing a Value Proposition**

“Extracting key differentiators from one or more of these core elements provides a basis of an organization’s value proposition. QSP (the “big 3”) establishes a solid business philosophy for the organization guides all strategic decisions and ultimately affects business performance.” (Weinstein, A., and Johnson, W. C. (1999).) What we see from Weinstein and Johnson is the critical foundation of developing the value proposition which will lead us into a stronger and more flexible business model.

Just as businesses are evaluating the real costs of doing business with specific suppliers, so are consumers evaluating the real costs of doing business with companies (QDI Strategies Inc, nd). In fact, many salespeople are being taught to sell the "value-added" benefits or the "total value" of the product rather than simply trying to sell the product (QDI Strategies Inc, nd). The value adds or total value may include things like relationships the company develops with its customers or the extra services it offers with the product (QDI Strategies Inc, nd). Companies can use various market research strategies to learn these things about specific market segments.

How a customer perceives value can be expressed in a formula: Value (perceived) = benefits (perceived) / costs (perceived) (QDI Strategies Inc, nd) Notice that each of the variables is "perceived"; it is perceived by the customer.

**P3: The higher the price, the stronger the relationship between Quality and perceived value.**

**The components of "value" are:**

Benefits of the Product, Service, Relationship, Brand (QDI Strategies Inc, nd). The customer must perceive they are gaining benefits by making the purchase. Benefits includes the quality of the actual product purchased, the service that goes along with it, the relationship with the people in the organization or the reputation of the brand being purchased (QDI Strategies Inc, nd). Perceived benefits typically include a combination of these aspects.

Costs, which is comprised of the Purchase price, buying and adoption costs, and/or the risks involved in the purchase (QDI Strategies Inc, nd). As stated before, the costs equal the total costs, which may include travel to the store, time spent in the store, the time it takes for the item to be delivered (QDI Strategies Inc, nd), if appropriate, any frustration the customer felt and so on. Cost is well beyond the simple price of the product. There is also the element of risk – does the customer take any kind of risk from purchasing the product (QDI Strategies Inc, nd), for example, purchasing stocks involves considerable risk, purchasing groceries involves very little risk. How much risk is involved also relates to the customer’s tolerance for risk (QDI Strategies Inc, nd). Is this product likely to pose problems for the purchaser? For example, not very many people will purchase a PC from a no-name company that would involve a great deal of risk unless the customer were a PC expert and could fix it themselves. For others, the risk is too great and that makes the cost out of balance with the value.
To change the consumer's perception of the value offered, certain factors must be present:

- They must be aware of what the company is offering (QDI Strategies Inc, nd).
- They must understand the product's differentiating value (QDI Strategies Inc, nd).
- The real value must be greater than alternatives through benefit or cost differentiation (QDI Strategies Inc, nd).

Another way to assure the customer of value is called customer value management. Customer value management takes steps beyond simple customer satisfaction with the different aspects of the product, usually referred to as quality. Customer value management then measures:

- The quality relative to the price the customer pays, or the value of the product or service (Chisholm, 1998).
- The perceptions of competitors’ customers. If the company's customers are so satisfied, then why aren't all consumers shopping at the company? (Chisholm, 1998).

Chisholm states that some people would call these additions to customer satisfaction "market-perceived quality and value relative to competitors' but it also includes incorporating quality and value metrics into the processes of the whole company, so that the company is able to:

- Track their competitiveness (Chisholm, 1998).
- Make decisions regarding what business to pursue (Chisholm, 1998).
- Make capital investments (Chisholm, 1998).
- Assess acquisitions (Chisholm 1998).

Using customer value management, a company adopts a strategy to optimize and maximize the value they deliver to their customers and also to gain the greatest strategic advantage and the most profitability (Chisholm, 1998).

P4: The greater the relationship between customer satisfaction and perceived value the greater the relationship between customer loyalty and increased sales.

Customer satisfaction has always been a critical element in the success of any company and different companies have gone to great extents to please their customers. In the past, managers basically decided customers were satisfied if the company's profits continued to increase (Gale, 1998). During the last twenty years, however, determining customer satisfaction has become more scientific (Gale, 1998). Customer loyalty, satisfaction and value have been measured through a variety of means and these data then led to decisions regarding necessary changes to increase the level of customer satisfaction (Gale, 1998).

Gale stated that most companies begin to measure this factor by first establishing a customer satisfaction baseline, then they target improvements to be made each year (Gale, 1998). Surveys usually offer the customer five boxes to check that indicates their level of satisfaction regarding a number of items; ratings of 4 and 5 mean they are satisfied or very satisfied (Gale, 1998). The first two or three surveys gives the company some insights on how they may improve but eventually the surveys become flat in terms of their ratings and do not yield any useful information (Gale, 1998).

Once the data on the surveys becomes flattened, companies move on to the degree of loyalty the customer has towards the store which is measured through a willingness to either purchase there again or to recommend the company to someone else (Gale, 1998). When these scores are compared to the satisfaction scores, the willingness to repurchase or recommend are typically directly aligned with the degree of satisfaction the customer said they had (Gale, 1998). This translates to the value the customer perceives they receive from purchasing from a specific merchant or from purchasing a specific product. If managers are effective at targeting customers who currently and potentially receive high customer value from the firm, then those customers should be loyal as reflected in repeat business and favorable referrals (Stahl, Barnes, Gardial, Parr, and Woodruff, 1999).

Dowling and Uncles (1997) observed that many companies use a variety of programs to enhance loyalty among its customers, for example, most airlines have frequent flyer miles programs that lead to free trips on that carrier; banks offer special services to their regular credit card customers; regular customers are often treated better in some establishments; even some hair-cutting business offer a free haircut after ten paid cuts.

Whatever the program is the purpose is the same -- to bond the customer to the company, to create and establish a long-term relationship with the customer gaining their loyalty to the company. Since it costs more to entice a new
customer to do business with a company than to get a current customer to buy again, it makes sense to offer extra benefits to those who are loyal and who continue to repurchase (Dowling and Uncles, 1997). The program to reinforce loyalty should result in a competitive advantage (Dowling and Uncles, 1997).

Consider how each of these ‘extras’, like a free haircut, frequent flyer miles and so on are all part of the benefit package the consumer receives from purchasing that product or service from that vendor. Benefits equal value. The customer perceives a greater value from these companies or from the product than from others who offer the same service or product. They buy where they perceive greater value.

There have been many companies that had high customer satisfaction ratings but lost market shares. That seems like a paradox but research has continually validated it as a fact. For instance, both Cadillac and AT&T enjoyed very high satisfaction ratings in the 1980s but they each lost a considerable percentage of their market share in the 1990s (Gale, 1998). Thus, customer satisfaction is not the primary key by which a company can predict its future income. Consumers no longer perceived value from these companies.

Some companies have asked whether or not customers who say they are very satisfied with the service or product continue to purchase from them if a competitor offers a better value. Research has shown that no; the customer will go where he or she gets more value for their money and time (Gale, 1998). There is no reason for customers to stay with a company when they can get better service, a better product or a better relationship from another company at the same or lower price (Gale, 1998).

Companies with branches, such as chain department stores and other institutions like banks find that some branches do better than others at retaining customers (Gale, 1998). Again, research has found that the branches that do better are offering what customers value and those that do poorly do not offer those services or relationships or whatever it is the customer finds valuable in that specific business (Gale, 1998). In other words, retention of customers is driven by how the customer perceives the value of what is being offered compared to the value offered by competitors (Gale, 1998). High customer value and high NPVC (net present value of the customer) go hand in hand through repeat business and positive referrals. NPVC is the total of the profits discounted over time associated with a customer, which equals the revenues associated with a customer minus the expenses needed to serve the customer. Such customer loyalty leads to long-term profitability and growth for the firm, its managers, and its owners (Stahl, Barnes, Gardial, Parr, and Woodruff, 1999). This adds another element to determining customer satisfaction -- how to determine customer value.

It is important, at this point, to look at the Customer Value Funnel as presented by Weinstein and Johnson (1999). This model presents an approach to competing in a customer competitive atmosphere. The first two sets, macroenvironment and microenvironment, have been discussed comprehensively earlier in the paper, however sets four and five need further in depth research. “Organizations consist of value providers. If the delivered value of these employees exceeds the expectations of customers (perceived value), positive net transaction experiences result. This leads to ongoing satisfaction and increased customer loyalty. In these cases, organizations are faring well in their moments of truth (points where value transfer occurs); hence, isolated favorable transactions evolve into continued, long-term relationships.”(Weinstein, A., and Johnson, W. C. (1999).) The Importance of the Value Funnel is that it functions as a tool in achieving the level of understanding necessary to draw a competitive edge in the market place. This portion of the paper gives a more practical view of the value paradigm and offers alternatives in support of the 4 C’s (Dennis, 1999).

The 4 C’s (Dennis, 1999) is an adaptation of the 4 P’s – product, place, price and promotion which was devised in the industrial age when we were in a “push” market and focus needed to be on the product. In today’s “pull” market focus is on the consumer (Carson, 1998; Dennis, 1999). Marketers need to be customer-oriented rather then product oriented. The 4 C’s gives us a beginning understanding of how a company conveys value to the consumer. The 4 C’s are:
Customer Value: What is the value of the product, what benefit would the buyer gain?

Cost to the Customer: What is the actual cost, this is equal to the price of the time and other costs the customer experienced to buy the product, e.g., travel to the store, time spent looking at the product or standing in the line (Dennis, 1999). Price is nothing more than an optimal economic number while cost is a social scientific construct that has to do with the customer’s perception of how much it really cost them to buy the item (Carson, 1998).

Convenience for the buyer: This has to do with the channels of distribution – how convenient is it for the consumer to purchase this product (Dennis, 1999).

Communication: Marketing can no longer be confined to a one-way communication mode whereby the company tells the consumer about the product, there must be two way communications (Dennis, 1999). The only way to know how customers perceive their costs or the value of the product is by asking them, which involves a dialogue in some way (Carson, 1998), even if only a survey.

Figure 3: Customer Value Funnel
It is essential in today's world to sell value, not just the product. A lower price does not automatically equate to value. Selling value requires:

- Accurately identifying persons or groups who can influence purchases that include understanding their objectives and interests (De Rose and Associates, Inc., nd).
- Completely and intimately understanding customer requirements, not only the expressed or specified ones, but the implied ones as well (De Rose and Associates, Inc., nd).
- Developing a Value Proposition that addresses the perceptions of these buying influences in terms that: Can translate product and service features and capabilities into solutions that address and meet identified customer requirements (De Rose and Associates, Inc., nd).
- Reliably satisfying consumers' technical, logistical, managerial, financial, and information requirements (De Rose and Associates, Inc., nd).
- Ensuring economic credibility to the Value Proposition by demonstrating cost effectiveness through:
  - Eliminating any unnecessary cost to the customer (De Rose and Associates, Inc., nd) – remember cost is not just the price.
  - Reducing the customer's cost (De Rose and Associates, Inc., nd).
  - Also, increasing revenue or improving customer cash flow (De Rose and Associates, Inc., nd).
  - Additionally, it is important to remember the market value exchange, which says that value must be received in return for the cost to the customer (De Rose and Associates, Inc., nd).

**CONCLUSION**

Among the factors to be considered when setting a price is the prices of competitors and the perceived value of the product or service. Value is a perceived quality and only the consumer can determine the value. Consumers will tend to pay a higher price for products and services wherein they perceive significant value. In other words, customers must perceive they are receiving value for their money and time.

Value also has to do with the perceived benefits of purchasing from a specific store or buying a specific product. Benefits may include the reputation of the company, the brand name, extra services, and reliability of the product and so on.

Value is also related to cost. Cost is more than the price. It includes other things like the time it takes to make the purchase. Companies need to consider the total cost to the consumer when establishing a price for any product or service.

This paper has given an understanding of the connection between price, product quality and the consumer’s perception of value. All of these areas lead to the satisfaction of the consumer and loyalty to both brand and company. An area for further research would be in the area of consumer’s pre-conceived ideas of brand and quality and price and quality as it relates to consumer’s buying behaviors and vendor loyalty.

**REFERENCES**


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