



Price placebo effect in hedonic consumption



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ABSTRACT

Given the widespread use of premium pricing strategies as a marketing practice, how consumers evaluate premium pricing actions is an interesting issue for both marketing researchers and practitioners. Thus, the objective of this study was to examine perceptions of premium prices and the role of prices, which act as a cue that improves consumers' experiences in an upscale café setting. Indeed, the results indicated that both price–quality schema and prestige sensitivity were significant factors that induce a positive overall perception of quality at luxury cafés, including coffee, service, and atmosphere. Thus, this study evidences that a price placebo effect exists in hedonic consumption settings. To better understand consumers' mental accounting based on their income source, the study examined the moderating effect of the origin of the respondents' income as well. The results revealed that the price tag generates positive consumer responses to café quality.

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1. Introduction

Over the years, the topic of pricing has been of great interest in marketing strategy and related research. Understanding how consumers evaluate pricing actions is a crucial factor in order to effectively determine price levels. Many previous studies on pricing, however, have focused on the negative role of price increases (Mattila and O'Neill, 2003; Oh, 2003). For example, consumers may experience an immediate “pain of additional paying” when they make a purchase (Prelec and Loewenstein, 1998; Rick et al., 2008). A growing literature on the behavioral aspects of pricing, however, argues that the influence of price on consumer perception is complex. Price is perceived as a multidimensional stimulus and affects consumers' purchasing intentions both positively and negatively (Dodds et al., 1991). A higher price induces consumer's expectations of higher perceived quality (price–quality schema) or prestige sensitivity and, consequently, increases intentions to buy (Zeithaml et al., 1996).

The question of how consumers perceive and process price information continues to provoke hospitality and tourism researchers' interest. Several studies have identified a number of interesting effects of price on consumer behavior and satisfaction (Mattila and O'Neill, 2003; Oh, 2003; Han and Ryu, 2009). For instance, prior studies have established that price has a negative impact on service performance (Dodds et al., 1991; Mattila and

O'Neill, 2003), and satisfaction (Han and Ryu, 2009). While these results certainly provide useful insights on how consumers are influenced by price, it is not clear whether the price cue is unique to select indulgent products rather than functional products. We take the argument one step further and propose a positive role of prices, rather than the perceived price itself, on the overall quality of the consumption experience. This argument is based on the “Veblen effect,” a theory of conspicuous consumption. According to the “Veblen effect,” consumers are willing to pay a higher price for even a functionally equivalent product in order to show off wealth through conspicuous consumption (Bagwell and Bernheim, 1996). In other words, the signaling effect of premium prices may have a positive influence on consumers' perceptions, particularly when the product or service has a hedonic function. For example, consumers purchase expensive wine because they hope others will perceive the high price as reflective of the internal traits or high level of product knowledge of the purchaser (Lichtenstein and Ridgway, 1993). Yet, do more expensive wines actually taste better?

A recent empirical study has shown that discounted products may be perceived by consumers to perform at higher levels, even though their actual performance may be objectively equivalent to lower-priced items. This is similar to the placebo effect (Shiv et al., 2005). In an interesting experiment, researchers found that individuals appreciate the same wine more when they think that it is more expensive and the area of the brain associated with pleasure is active (Plassmann et al., 2008). Although such results shed some light on the impact of prices on “objective” or actual product performance, the effects of price on consumer behavior in a hospitality environment are still controversial and lack consistency.

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The questions that we address in this research are how consumers react to premium pricing actions and evaluate their hedonic consumption experiences. For instance, are consumers overly critical because they paid more? Can price be a positive indicator of a product or service they have already chosen in order to reduce dissonance? The current study draws on expectations of quality based on price–quality schema and prestige sensitivity that arise from marketing actions, such as premium price promotions and may adjust consumers' subjective perceptions of quality.

How consumers interpret prices may significantly vary by individual customer and by cultures (Parasuraman, 1997). The present research addresses this issue by drawing on young adult consumers' perceptions of price cues in a luxury café setting. Academic research on young adult consumer's price perceptions is still limited, even though Gen Y consumers (born between 1977 and 1994) are one of the most desirable markets, accounting for 82 million consumers in the United States and 660 million in Asia (Waters, 2006; Sheahan, 2005). Understanding Gen Y's beliefs/expectations toward prices is essential because these beliefs/expectations shape their subsequent behavior, particularly spending habits (Roberts and Jones, 2001). Many young adult consumers still rely on their parents' financial support (Fingerman et al., 2009). Thus, the origin of young adult consumers' income, pocket money or personally earned, is also an interesting issue to explore. Gifted money and earned income may shape attitudes toward prices differently in premium pricing marketing actions.

The current investigation advances theoretical knowledge in the hospitality context regarding price–quality schema, prestige sensitivity, and service quality. Understanding price quality schema and prestige sensitivity in the formation of actual quality perceptions is very important and meaningful for foodservice marketers, as it provides guidance for developing price positions through the most appropriate strategies. Thus, the original contribution of this study is that it provides evidence that a premium price tag can cause a placebo effect and evoke consumers' expectations, which influences perceptions of overall quality. In addition, little is known about whether conditions under price expectations are stronger or weaker across sources of discretionary income in the formation of perceptions of quality. Therefore, the purpose of this study was to identify how perceptions of price in premium pricing actions influence customers' overall perceptions of service quality, as well as the extent to which income source moderates the relationship between perception of price and perceived quality.

More specifically, the objectives of this study on premium marketing actions is: (1) to examine the effect of price–quality schema cues on perceived food, service, and atmosphere quality at a café; (2) to identify the effect of prestige sensitivity cues on perceived food, service, and atmosphere quality at a café; and (3) to test the moderating effect of income source on the relationship between price perception and subjective perceptions of quality.

2. Literature review and hypotheses

2.1. Price placebo effect

A placebo effect arises when patients' beliefs and expectations regarding a medication they consume can yield real health benefits, even if the medicine is actually inert (Stewart-Williams and Podd, 2004). Employing similar logic, Shiv et al. (2005) demonstrated that consumers expect poor quality from a lower-priced option, which yields a lower objective performance. According to Shiv's experimental study, marketing actions such as price discounts lead to a placebo effect. In other words, expectations influence how an individual perceives an experience (Poulsen et al., 1996). Prior to consumption, expectations regarding quality are based on price

cues, defined as informational stimuli. These cues can shape consumers' perceptions of quality (Rao and Monroe, 1989). Consumers' beliefs and expectations regarding the performance of a product based on price cues can yield real changes in efficacy.

The current study has focused on young adult consumers because they are more willing to pay price premiums than older consumers for symbolic reasons (Sethuraman and Cole, 1999). Generation Y is considered a peer oriented group and is perceived as consumption-oriented (Pokrywczynski and Wolburg, 2001). Therefore, premium-pricing actions may work well with young adult consumers. This study is conducted in luxury cafés in South Korea that offer high priced specialty coffee in order to examine the role of the premium pricing effect. Specialty coffee is regarded as a highly hedonic product, like wine or cheese (Beaver, 2006). Specifically, Asian consumers use Western cultures as status symbols (Sklair, 1995). For consumers in Asia, Western style foods are associated not only with images of high quality but also with social and symbolic value (Batra and Sinha, 2000). Therefore, a cup of coffee conveys a somewhat different meaning for young Asian adults (Sklair, 1995). Drinking coffee is associated with images of wealth and class prestige (Roseberry, 1996). In reality, the relative price of Starbucks' products in some Asian countries is higher than in the United States in order to mark their coffee as a high-end product (The Wall Street Journal, 2012). High priced marketing actions in luxury cafés may evoke positive perceptions of the consumption experience. High prices in a luxury café may even signal a higher level of service quality and social benefits to consumers. In order to feel the full effects of the luxury experience, these products or services need to evoke a sense of prestige and status. That is, satisfaction with hedonic consumption requires a high-priced sacrifice, which is the same mechanism underlying the placebo effect (Kapferer, 2012).

2.2. Price perception

Price is a crucial factor in consumption values since it is one of the most important marketplace cues (Monroe, 1984). Consumers are likely to respond differently to prices across hedonic products and functional products (Wakefield and Inman, 2003).

A consumer's price beliefs and the linkage with actual quality performance may differ with regards to hedonic benefits. Understanding how hedonic consumers use price cues and respond to quality is important. Marketers can simultaneously gain profitability by emphasizing other extrinsic cues to satisfy hedonic needs and spur sales. According to Lichtenstein and Ridgway (1993), positive price cues, such as price–quality schema and prestige sensitivity, indicate that a higher price leads to higher perceived quality or prestige and, consequently, increases the likelihood of a purchase. Consumers who enjoy specialty coffee in a luxury café may perceive premium prices favorably. For instance, when restaurant customers pay more compared to the reference price in the same category, they expect to receive a higher level of service (Zeithaml et al., 1996). Thus, it can be assumed that positive price cues (price–quality schema/prestige sensitivity) trigger expected quality in a positive direction.

2.2.1. Price–quality schema

Price–quality schema is defined as “the generalized belief across product categories that the level of the price cue is related positively to the quality level of the product” (Lichtenstein et al., 1993, p. 236). Some consumers are willing to pay more because they believe that a higher price is associated with high quality. This reflects a consumer's propensity to use prices to make a judgment regarding a product's overall superiority (Zeithaml, 1988). The price–quality schema plays an important role in consumer decision making. It affects judgments of perceived quality, influences perceived value

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