IRSTI 06.58.45

T. Kamzabek[1], B. Anarbay[2], Sh. Amirshoev[3]
[1,2,3]Suleyman Demirel University, Kaskelen, Kazakhstan

REFERENCE PRICE, PRICE PERCEPTION AND WILLINGNESS TO PAY

Abstract. The product price plays a strategical role for both organizations, in terms of profitability and consumer lives in terms of utility-maximizing. However, it is difficult to predict consumer behavior toward established prices by firms. The research works predict that consumer price perception and willingness to pay are different. Also, a consequence of price has been analyzed under three theories (1) Adaptation theory (2) assimilation theory and (3) transaction utility theory. In addition to that, this work shows five types of price perception (positive and negative price perceptions) and consumer model of willingness to pay.

Keywords: reference price, price perception, willingness to pay.

***

Аннотация. Цена продукта играет стратегическую роль для обеих организаций с точки зрения прибыльности и жизни потребителей с точки зрения максимизации полезности. Однако трудно предсказать поведение потребителей в отношении установленных цен со стороны фирм. Исследования показывают, что восприятие потребительских цен и готовность платить отличаются. Кроме того, следствие цены было проанализировано в трех теориях (1) теория адаптации (2) теория ассимиляции и (3) теория полезности транзакций. В дополнение к этому, эта работа показывает пять типов восприятия цены (положительное и отрицательное восприятие цены) и потребительская модель готовности платить.

Ключевые слова: справочная цена, ценовое восприятие, готовность платить.

***

Аңдатпа. Өнім бағасы ұйым үшін табысын арттыру үшін, және де тұтынушылықты арттыру тұрғысынан тұтышушыға үлкен рөл атқарады. Алайда, фирмалармен белгіленген бағаларға қатысты тұтынушылық әрекетін біркелкі емес. Зерттеу жұмыстары тұтынушылық бағаны бағалау және төлеуді екі әр турлі консепт ретінде болжайды. Бағаның салдары үш теория бойынша талданды (1) бейімделу теориясы (2) ассимиляция теориясы және (3) транзакция пайдалылық теориясы. Сонымен қатар, бұл

жұмыс бағаны қабылдаудың бес түрін (бағаны оң және теріс түсіну) көрсетеді, және төлеуге дайындылық моделін қарастырады.

Түйінді сөздер: анықтамалық баға, бағаны қабылдау, төлеуге дайындылық.

Introduction

The price cue is presented in all purchase transactions, on the other words, it is the amount of economic outlay that has to be sacrificed to get something. Consumer price perception is the relevant field of studying both academic researchers and practitioners. The price perception is interlinked with the consumer intention to purchase (Monroe K., 1973), moreover, the recent studies analyzed the relationship between price and pricing strategy on consumer food choice (Steenhuis, Waterlander, & Mul, 2011), on shopping behavior (Lichtenstein, Ridgway, & Netemeyer, 1993) also the price of food was the determinant of the food choice same time with a taste and quality (Cassady, Jetter, & Culp, 2007). In terms of organizational context, pricing is a central tool for profit maximization (Soon, 2011). The organizations to decrease the price competition, usually, adopt asymmetric sampling strategies. It means perceived product differentiation leads the consumer to switch from one product to another (Lingli Wu, 2017). The systematic review of (Mendoza, 2016) represents the price perception formed based on consumer believes, attitudes, experiences, also it may change by the contexts. He emphasized the existence of a discrepancy between willingness to pay and purchase intention. The given reference price may be interpreted differently according to customer perception. This paper provides a relevant literature review for consumer behavior toward price references under different theories.

Main part

Since the impact of price references is dependent on contextual factors, there was examined the impact of store type, brand familiarity, and advertisement. While most works focused on the antecedents of consumer behavior, the moderating role of individual variables that affect the relationship between antecedents and price perception were ignored. The individual variable may moderate the relationship between the reference price and the outcome variable (Alford & Biswas, 2002). This examined the integration role of price consciousness and sale proneness with reference price framework. The study of (Biswas, 1992) empirically examined the moderating role of brand familiarity on relationship reference prices on price perception and behavioral intention. Most researches focused on the identification of price perception formation and antecedents. The future works suggested to investigate the model between product information and purchase intention (Chang & Wildt, 1994), additionally, the relationship between consumer perception and response should be specified and discriminate (Lichtenstein, Ridgway, & Netemeyer, 1993). Furthermore, a

systematic review of (Mendoza, 2016) represents, price perception is cyclical, and it is an antecedent of willingness to pay and purchase behavior. Additionally, it assumes the existence of differences in price perception, and these differences may be affected by different variables. From the matter of consumer perception, the higher price tends to negatively affect on consumer purchases, however, several studies support the positive effect of higher prices, in which consumers define the quality of the product proportionally to it (Erickson & Johansson, 1985) (Lichtenstein, R., Bloch, & Black, 1988) (Tellis & Gaeth, 1990). The current study suggests, the differences in a price perception may the result of product-related characteristics, in addition to that, the previous works examined the moderating role of product design newness in the relationship between product learning and evaluation (Mugge & Dahl, 2013), moreover, there was found the moderating role of visual aesthetics design of stores in consumer intentions (Vieira, 2010). This study focuses on the role of product-related characteristics on the relationship between price reference and perception, which leads to a willingness to pay.

The systematic work of (Mendoza, 2016) offers a relevant model of how price perceived and affects consumer behavior. He assumes that the price perception of customers is cyclical, where the perception results after the purchasing occur and the consumer experiences it. He also proposed that there is a difference between price perception and willingness to pay. According to the table above, there is given that the price perception is the antecedent of willingness to pay. Even after the price perception formulated, the willingness to pay may differ even the price was reasonably perceived. The broad literature shows the price perception of consumers tends to influenced by Reference Prices, Quality Perception, Brand Awareness, Brand Loyalty, Product Familiarity, Price Memories, and Information Assymmetics. The numerous work tested the relationship between the Reference price and Price Perception. Also, it was the central research field for Marketing researchers. The effects of reference prices usually come from 3 complementary theories:

Figure 1. Model of Price Perception and Willingness to pay

(1) Adaptation theory (2) assimilation theory and (3) transaction utility theory. The first two explain the external reference price, offer price and internal range of price (Lichtenstein & Bearden, 1989), and the transaction utility theory explains the interrelation between the adjusted internal price range with the perception of value and search.

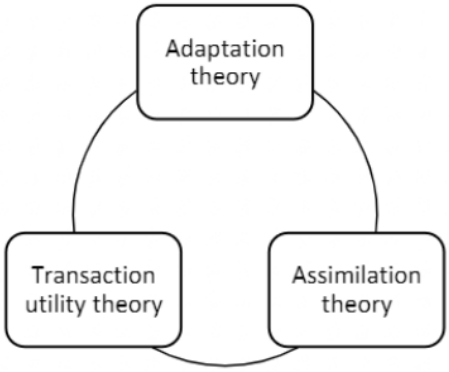

Figure 2. Theories for Reference price

Adaptation theory means consumer behavior depends on adaptation to organic (physiological and psychological processes), focal (consumer direct response) and contextual signals (other incentives within focal cues). This theory suggests consumers evaluate the stimuli as incoming pricing information in terms of internet standards. This standard of pricing may be considered as the average price of the previously observed market price. Incoming information related to the price divided into higher, acceptable and lower comparable with

adaptation level pricing. The externally offered price may adjust even to change the consumer adaptation level of price.

Assimilation theory explains the consumer can set the price belief by their own (Sherif, 1963; Sherif and Hovland, 1961). The reference price supplied by suppliers falling into the latitude of consumers' price range considered as plausible by individual and acceptable according to the internal expected price range. In contrast, if the price exceeds the expected price range, it deemed not plausible by individuals and will not affect an internal range of price. The main point of this theory external reference price can be fallen either into or contrasted against the consumer internal price range (Biswas et al., 1999), resulting in value perception and purchase evaluation.

In the matter of transaction utility theory, which explains the value and dignity of the deal. Consumer compares the internal reference price with suggested as being "fair" or expected price (Klein and Oglethorpe, 1987; Monroe,1990; Thaler, 1985). The higher advertised price tends to increase the consumer perception of fair price, by increasing the transaction utility and obtained value from the deal.

The role of how consumer's memory the price in the theories explained the works on reference prices come from the comparing the actual price with some set of prices which regarding internal reference prices, where consumers learn by past paid (Winer, 1986), or external reference price, where consumers compare the actual given price with other relevant brands (Hardie et al., 1993). Casielles and Alvarez (2007) listed reference price models, in which the reference price obtained by stimulus or observation, where consumers randomly select a product available and use it as a reference. Also, it related to the current prices, where a consumer uses the given price of the brand to compare with others. Another model is Past Prices which come from memory, where a consumer uses the price of paid in the past to compare the price of other brands. The last, Brand Specific Past Prices, which also related to the memory of pricing, where consumer memorizes the price of a specific brand to compare with others. Moreover, (Klein and Oglethorpe, 1987) described the reference price according to the past, existing and expected reference prices. Expected means, aspiration prices, where the price that consumer prefers to pay. In terms of existing price, which related to the market price, particularly the price that the consumer has heard. Historical price is related to the last experiences of consumers that they tent to pay.

Price perception

Price perception can be identified as the consumer's subjective perceptual representation of the given price of the product (Jacoby & Olson, 1977). As the price mostly cited associated with the quality, value, and consumer purchase intention, price perception defined as an intermediate variable among price-quality relationships (Monroe & Chapman, 1987). The work suggests

during the making decision, consumers mostly compare the given price with the internal reference price which results in price perception. To evaluate consumer product evaluation regarding given objective price and reference prices two theories are used to describe (Assimilation/contrast theory and adaptation-level theory) (Lichtenstein & Bearden, 1989). Even there is no purchase, by the association with psychological contrast can cause of price perception (Mendoza, 2016). The systematic literature review of (Mendoza, 2016) found the formation and measurement of price perception from different approaches. Regarding the (Lichtenstein, Ridgway, & Netemeyer, 1993), value consciousness deemed as the ratio of quality that consumer perceives to the price paid. This also can be proved the value consumer perceived from paid price according to the (Aaker, 1992) (Zeithaml, 1988). It is the consumer concern for the price paid for the quantity received (Lichtenstein, Ridgway, & Netemeyer, 1993). Moreover, the value-conscious consumer has a negative impact on purchase probability. In other words, the consumer seeks a higher quality at a lower price in a competitive market (Zeithaml, 1988). (Mendoza, 2016) listed the factors that influence the price perception formations. The systematic works as antecedents proposed Prior Beliefs, Prior reference prices, Prior experiences, Price consciousness, Price sensitivity, Cultural Factor and Consumer Characteristics which cause the differences in price perception

Previously, there was found the relationship between price perception and purchase behavior (Monroe K. , 1973) (Chandon, 2005), also it influences consumer willingness to pay (Adaval & Wyer Robert, 2011). The sequence of effect price perception and consumer willingness to pay affected by several external and internal factors (Mendoza, 2016). The relationship between price and consumer demand for that product is a well-defined topic in research. The cost of the product is considered as an important factor in consumer food selection, especially for the lower social groups as students, unemployed and the retired ones (Reicks, Randall, & Haynes, 1994). Above it was mentioned the positive and negative roles of the price, and researches face different results regarding consumer price perception. The review study of (Lichtenstein, R., Bloch, & Black, 1988) proposed five constructs (value consciousness, price consciousness, coupon proneness, sale proneness, price mavenism) with a negative role of price perception, which means the higher price may cause to decline in a purchase probability and two contrasts (price-quality schema, prestige sensitivity) as a positive, where the higher price may lead to an increase in purchase probability. With regards to Price consciousness, the author uses this notion as to which extent the consumer focuses on paying the lower price. In terms of coupon proneness, it is concerned with a form that the price is presented. The price reduction in the form of coupon leads to an increase in consumer response, which afterward may result in a lower response to noncoupon price. The term coupon defined as an increment tendency to a purchase offer, cause

this form to positively leads to consumer purchase (Lichtenstein, Netemeyer, & Burton, 1990). In the matter of sale proneness, similar to the coupon form, it is a tendency to respond to a purchase offer, this form positively affects the consumer purchase assessment. The last, price mavenism, it means people are tending to be informed about the market prices and transmit it to others. According to that people have a desire to be informed about low price information. Consequently, people who have a desire to be informed about the price information may have access to many kinds of products and places to buy it at a lower price initiates the discussion with consumers which spread it to other consumers.

Conclusion

The paper shows how established prices can be perceived by consumers and lead to a willingness to pay. The literature shows that the price perception and willingness to pay are not the same concepts, consumers purchasing behavior may differ among different price perceptions. The reference price may have an effect on consumers under three theories: (1) Adaptation theory (2) assimilation theory and (3) transaction utility. Also, the consumer's perception of price may be both negative and positive. Research shows five constructs (value consciousness, price consciousness, coupon proneness, sale proneness, price mavenism) with a negative role of price perception, which means the higher price may cause to decline in a purchase probability and two contrasts (price-quality schema, prestige sensitivity) as a positive, where the higher price may lead to an increase in purchase probability.

References

1 Aaker, D.A. The Value of Brand Equity. *Journal of Business Strategy,* 13 (4), (1992): pp. 27-32.

2 Adaval, R., Wyer Robert, S. Conscious and nonconscious comparisons with price anchors: Effects on willingness to pay for related and unrelated products. *Journal of Marketing Research,* 48 (2011): pp. 355-365.

3 Cassady, D., Jetter, K., Culp, J. Is price a barrier to eating more fruit and vegetables for low-income families? *Journal of the American Dietetic Association,* 107 (11), (2007): pp. 1909–1915.

4 Chandon, P.M. Do Intentions Really Predict Behavior? Self-Generated Validity Effects in Survey Research. *Journal of Marketing,* 69 (2), (2005): pp. 1–14.

5 Jacoby, J., Olson, J.C. Consumer Response to Price: An Attitudinal, Information Processing Perspective. *In Moving Ahead with Attitude Research. Y. Wind and P. Greenberg, eds. Chicago: American Marketing Association*, (1977): pp. 73-86.

6 Lichtenstein, D.R., Netemeyer, R.G., Burton, S. Distinguishing Coupon Proneness From Value Consciousness: An Acquisition-Transaction

Utility Theory Perspective. *Journal of Marketing,* 54 (3), (1990): pp. 54–67.

7 Lichtenstein, D.R., Ridgway, N.M., Netemeyer, R.G. Price Perceptions and Consumer Shopping Behavior: A Field Study. *Journal of Marketing Research,* 30 (2), (1993): pp. 234-245.

8 Lichtenstein, R.D., Bloch, P.H., Black, W.C. Correlates of Price Acceptability. *Journal of Consumer Research,* 15 (2), (1988): pp. 243–252.

9 Lingli Wu, S.D. Sampling and Pricing Strategy Under Competition. *Omega*, 80 (2017): pp. 192–208.

10 Mendoza, J. Towards the formation and measurement of ethnic price perception. *DBA Thesis (Cranfield university)*. (2016). – P. 526.

11 Monroe, K. Buyer's Subjective Perceptions of Price. *Journal of Marketing Research,* 10 (1), (1973): pp. 70-80.

12 Monroe, K.B., Chapman, J.D. Framing Effects of Buyers' Subjective Product Evaluations. *In Advances in Consumer Research.* 14 (1), (1987): pp. 193-197.

13 Reicks, M., Randall, J., Haynes, B. Factors affecting consumption of fruits and vegetables by low-income families. *Journal of the American Dietetic Association,* 94 (11), (1994): pp. 1309–1311.

14 Soon, W. A review of multi-product pricing models. *Applied Mathematics and Computation,* 217 (21), (2011): pp. 8149-8165.

15 Steenhuis, I.H., Waterlander, W.E., Mul, A.D. Consumer food choices: the role of price and pricing strategies. *Public Health Nutrition,* 14 (12), (2011): pp. 2220-2226.

16 Zeithaml, V. Consumer Perceptions of Price, Quality, and Value: A Means-End Model and Synthesis of Evidence. *Journal of Marketing,* 52 (3), (1988): pp. 2-22.