

## THE IMPACT OF PRICE-QUALITY RELATIONSHIP ON THE ROMANIAN CONSUMERS

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*The economic literature from the middle of the XXth century underlined the fact that the price is the most relevant indicator of a product's quality, arguing that when various goods are heterogeneous from the quality's point of view and when their prices are significantly different, the consumers correlate the monetary sacrifice to the level of the quality. The present paper offers strong arguments that partially contradict this idea, the empirical support being represented by a study conducted by us, with the help of a questionnaire, on a sample of 500 Romanian consumers. The results obtained after the statistical tabulation of the data reveal the fact that most of the investigated persons consider that the goods with high prices do not have always a superior quality, but only sometimes. The conclusion of the study strongly sustains the idea according to which, only in the absence of other information about a product, the individuals will largely base the quality evaluation of the good on price, sometimes even overestimating the intensity of the relationship between the two indicators.*

**Key words:** price, quality, branded products, private label goods.

The correlation between price and quality is frequently met not only in the case of the private label goods but also for those with strong brand names, consumers being tempted to consider their price a benchmark in evaluating the quality of the products. The difference between the perception of the value and the association of the price with the quality consists in the fact that, while in the first case the consumers will accept a lower price only if they can obtain in return at least the minimum desired level of quality, in the second situation individuals are willing to pay less / more to get a good with a lower / higher quality.

The consumers often appreciate the quality of a product depending on a number of characteristics that they associate with that good. These can be intrinsic properties of the product - resulting from the physical composition, and extrinsic attributes – the price, the brand name or the advertising of a good. All these factors, considered together, reflect a certain level of quality, which will subsequently generate or not utility to the consumers. Moreover, the characteristics of the product can determine its quality level by comparing them with other properties of some substitutable goods.

## MATERIAL AND METHOD

The economic literature of the mid-twentieth century emphasized that the price is the most relevant indicator of a product's quality [16], demonstrating that when more goods are heterogeneous in terms of quality and their prices are significantly different, the consumers will associate the monetary sacrifice to the quality. Yet, a number of recent studies have brought pertinent arguments that partly or completely contradict this idea. Thus, Bowbrick (1982) was among the analysts that have hesitated to support the positive dependency relationship, assumed to exist between price and quality. Moreover, he names the previous studies "false researches" [2], because the assumption according to which the price is an indicator of quality is too general to be tested. The same idea is underlined by Jacoby and Olson (1985) who conclude that the relationship between price and perceived quality is not a universal one, because its meaning could be also negative. Other studies show that the relationship is non-linear [13], which greatly varies not only from one consumer to another [10], but also between products [8], the price becoming a less significant indicator for assessing the quality when there are taken into account a number of other factors such as the brand name or the reputation of a company. In this case, a strong brand name is a guarantee of the quality, because it brings, as shown above, an added value to the products, when the consumer takes the purchasing decision [11]. Yet, at the same time, in the case of the private label goods that are not familiar to the consumer who lacks information, the price may be considered an indicator of quality [15]. The idea is also met in some previous studies, Olson (1977) arguing that the individuals will appreciate the quality according to price when it is the only known element. Otherwise, when consumers have information on the intrinsic characteristics of the products, the price becomes less relevant [12]. Thus, we can explain why, when the individuals are perfectly informed, two assets with similar prices but different qualities are sold in different quantities, on the same market. In this case, there is the risk that the product with the lowest quality may not be sold.

In the absence of other information about a product, the consumers will mostly rely on price in evaluating the quality, sometimes even overestimating the intensity of the relationship between the two indicators, because they need a "cognitive foundation in taking the acquisition decision" [7]. Therefore, when a product has a high price, the uninformed consumers will expect to obtain a higher quality. In the ideal situation when this happens, the individuals' satisfaction will be so great that they will become loyal for a long period of time [17]. Otherwise, the consumers will perceive the price as unfair and they will want to "punish" the company by avoiding its products at the following acquisitions [4].

In an empirical study, Gerstner (1985) tested the link between price and quality on a sample of 145 goods, concluding that it depends a lot on the type of product but, in general, the two aspects are weakly correlated. Yet, Garretson et al. (2002) notice a relatively strong positive relationship between price and the perception of the quality of those products for which the consequences of taking a wrong purchase decision are important. The same idea could be found at Peterson and Wilson (1985), both of them stressing that, when the risk resulted from a wrong choice is high, the consumers will opt for the more expensive products. That explains why the price is often considered an indicator of quality more for the durable goods than for those on short term. For this reason, the higher the price of the short term goods is, the lower the probability of purchasing them is. Unlike them, for the products with an average life time cycle, the more expensive they are, the greater the bought quantities will be. Therefore, in their case, as for the durable goods, there are evidences showing that the price is an indicator of the quality [5].

Peterson and Wilson (1985) have also argued the relationship between the price changes, on the one hand, and the correlation of the price with the quality, on the other hand. Thus, the higher the price changes will be, the more tempted the individuals will be to associate their level with the quality of the goods [14].

A particular category of studies, both theoretical and empirical, are approaching the relationship between price and quality in a radical manner, indicating that the price is among the less important attributes that consumers associate with the quality of the products [1]. According to these studies, the quantity sold by a firm is positively correlated with the quality of the goods, but in evaluating this last one, the price does not seem to have any influence or it has a very low impact. In the specialized literature, the phenomenon is described as “the quality cleans the market” [3].

However, taking into account those presented above, it can be concluded that using the price as an indicator of the quality in taking the purchase decision depends on the following factors [18]:

- the measure in which the intrinsic elements that define the product's quality are known;
- the price variation inside a products' category;
- the quality variation inside a products' category;
- the consumers' ability of determining the level of the quality inside a products' category;
- the information known by consumers, regarding the prices of other firms for the substitutable goods.

We do notice that these elements that determine the use of price as an indicator of the quality can be grouped into three categories: informational factors, factors related to the abilities of consumers and factors related to the type of analyzed products. The first category includes all the pieces of information available to consumer, except the price. As we argued above, when the intrinsic elements of a product, which dictate the level of the quality, are accessible to consumers, or when the brand name provides the evidence of the reputation of a company, the consumers will prefer to consider more these issues when evaluating the quality rather than the price.

The consumers' skills are an important element in assessing the relationship between price and perceived quality. We notice that those individuals who are not informed of the price charged by other firms for substitutable products can not use this indicator in evaluating the quality of a good. However, when individuals do not know very well the products so as to notice the variations of their quality, this feature - quality - can be determined according to price.

The analysis of the role of price in evaluating the quality of products' categories has proved to be justified because the results can significantly vary from a range of goods to another. Especially in the case of those products for which the maintenance, repair and service operations are expensive and require a long time, the consumers are more tempted to appreciate the quality in terms of price.

Taking into account all these aspects mentioned in the specialized literature, we intended to analyze the way in which the Romanian consumers perceive the relationship between price and quality. In order to reach this purpose, we have conducted a survey, based on questionnaire, on a sample of 500 people. The selection of these individuals was made so that the sample is representative for the Romanian population. The questions included in the questionnaire refer both to the durable goods and to the short term ones. The collected data were processed using the SPSS program.

## RESULTS AND DISCUSSIONS

After processing and interpreting the individuals' responses, we notice that the great majority of the surveyed people – almost 80% - believe that goods with high prices also enjoy a high quality. However, the claim is reserved for the 69.25% of respondents who consider that it is valid only sometimes.

When conducting a correlation analysis, we find out that the level of the income does not significantly influence the perception of the people regarding the relationship between the price and the quality of the goods (by  $\chi^2$  test, the resulted  $p$  coefficient was 0.455, so higher than 0.05). As it can be seen in the table below, regardless of the income category, most of the respondents said that, sometimes, the price reflects the products' quality.

Table 1

**The percentage of the persons that correlate the price with the quality – on income categories**

| Price=quality (P=Q) |              | Income (RON) |         |          |           |           | Total |
|---------------------|--------------|--------------|---------|----------|-----------|-----------|-------|
|                     |              | Under 600    | 601-900 | 901-1500 | 1501-2500 | Over 2500 |       |
| Yes, always         | Number       | 3            | 6       | 9        | 9         | 4         | 31    |
|                     | % within P=Q | 9.7%         | 19.4%   | 29%      | 29%       | 12.9%     | 100%  |
|                     | % in Income  | 4.1%         | 11.5%   | 11.5%    | 12.3%     | 7.3%      | 9.3%  |
|                     | % of Total   | 0.9%         | 1.8%    | 2.7%     | 2.7%      | 1.2%      | 9.3%  |
| Yes, sometimes      | Number       | 58           | 32      | 51       | 49        | 42        | 232   |
|                     | % within P=Q | 25%          | 13.8%   | 22%      | 21.1%     | 18.1%     | 100%  |
|                     | % in Income  | 78.4%        | 61.5%   | 65.4%    | 67.1%     | 76.4%     | 69.9% |
|                     | % of Total   | 17.5%        | 9.6%    | 15.4%    | 14.8%     | 12.7%     | 69.9% |
| No                  | Number       | 13           | 14      | 18       | 15        | 9         | 69    |
|                     | % within P=Q | 18.8%        | 20.3%   | 26.1%    | 21.7%     | 13%       | 100%  |
|                     | % in Income  | 17.6%        | 26.9%   | 23.1%    | 20.5%     | 16.4%     | 20.8% |
|                     | % of Total   | 3.9%         | 4.2%    | 5.4%     | 4.5%      | 2.7%      | 20.8% |
| Total               | Number       | 74           | 52      | 78       | 73        | 55        | 332   |
|                     | % within P=Q | 22.3%        | 15.7%   | 23.5%    | 22%       | 16.6%     | 100%  |
|                     | % in Income  | 100%         | 100%    | 100%     | 100%      | 100%      | 100%  |
|                     | % of Total   | 22.3%        | 15.7%   | 23.5%    | 22%       | 16.6%     | 100%  |

However, a significant correlation proved to exist between the respondents' perception on how the price reflects the quality, on one hand, and their age, on the other hand, the  $\chi^2$  test sowing the following values:  $\chi^2$  (1,  $n = 332$ ) = 28.49,  $p =$

0.00,  $\phi = 0.293$ . Thus, among those who believe that the price always reflects the quality, most of them (35.5%) were aged between 50-59 years old. Many of those who believe that only sometimes a high price denotes a high quality (37.7%) are young people between 19 and 29 years old, the most skeptical about this claim being those aged between 30-39 years old that total 30.4% of the people who disagree the fact that the price is an indication of the quality. In the age group 60-65 years old, 50% of the respondents associate the price with the quality only sometimes, 16.7% always and 33.3% never. This last value (33.3%) shows, by analyzing the percentage of those who responded negatively to this question in each age group, that people who are close to retirement are most skeptical about the existence of a relationship between price and quality, this aspect probably resulting from a longer life experience, too.

We do not notice significant differences by gender in terms of how the price is associated or not with the quality. The great majority (over 65%) both women and men consider sometimes the price an indicator for the products' quality.

## CONCLUSIONS

Considering all the aspects mentioned above, we can conclude that the price can be considered an indicator of the quality only in certain cases, when there are met some conditions. Thus, we may speak about the situation in which the consumers do not have sufficient information about products, if there are unknown the intrinsic elements that define the quality of a good or the prices of other companies for substitutable products.

These theoretical findings are also argued in our empirical study, according to which the great majority of people included in the survey consider that the price may be an indicator of quality only sometimes. Surprisingly, income is not the aspect that has influenced this response but the age of respondents: most of the aged persons were more skeptical regarding the positive relationship between price and products' quality.

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