

MARKETING

Price interactions with the consumer

There has been a significant change in the way of life of this country in the last fifty years or so. There are more of us around. We have more of all kinds of things; be it money, possessions, pleasures and worries. Then, when essentially every day necessities were purchased, consumers were indeed careful in how they spent their pennies. Thrift was a national characteristic. People looked for the durability of the fabric or the sturdiness and practicality of the furniture being bought. Are these considerations still important? Understanding how consumers buy and view price is critical to effective product pricing. Are we the slaves of some incorrect assumptions?

The downward sloping demand curve

It is generally assumed that buyers' decisions as to what they buy and how much they buy is explained by the downward sloping demand curve. This model assumes a rational buyer, perfect information about prices, a fixed level of income and knowledge about tastes and preferences. Satisfaction is maximised by minimising the price paid. Here the purchase price is essentially seen as the sacrifice the buyer must make to acquire a product or service. This model suggests that buyers would search for the lowest price. Is it correct to say that buyers search for the lowest priced alternatives?

Do they know the prices they pay? Economic theory assumes that the buyer has perfect information about alternative product offerings that can meet the same want. I have yet to hear someone say that the recent introduction of the 'Prices Teletext' is an attempt at giving

People buy things not only for what they can do but also for what they mean. After all, communication with the consumer does not take place simply through advertising or personal selling. The other elements of the marketing mix also communicate, writes Albert Caruana.

consumers perfect information! Besides this assumption that buyers know the price they pay, it is also assumed that buyers are price sensitive in that they will search for the lowest priced offering. Empirical research provides little support for the idea that consumers know the prices of many everyday purchases. How many of us can mention the price of corned beef, ketchup, shaving cream, and a host of other frequently purchased products? There is however some evidence to indicate that consumers have some idea of the current price range in the case of some of the more fast selling items.

Symbolic value

Look at our houses today and start to list the significant array of items we buy and which you cannot justify on economic or utilitarian grounds. Yet we still talk about price, quality, sturdiness and durability. These are believed to be sensible traditional values. However deep down we know that many of our purchases were made on other considerations.

We do not feel comfortable in justifying our purchases on non utilitarian grounds. Yet people buy things not only for what they can do, but also for what they mean. We use products as a means of self expression. We may offer foreign imported wines for dinner when we have guests not because we can tell

the difference but because we wish to convey certain messages. We are good hosts. We are sophisticated enough to know something about wine. Similarly, we buy a T-shirt with a prestigious brand name not because it keeps us more comfortable but because we wish to convey a certain taste or image. Again, we may buy a certain car not because we want a means of transport, but because it may enhance the way we think of ourselves or wish others to think of us.

The question many consumers often ask today is not "Do I need this?" but "Do I want it?"; "Do I like it?". Today's consumers tend to buy goods less for what they can do and more for their personal and social meaning. Many of the things we buy have symbolic meaning.

Price and quality

Communication with the consumer does not take place simply through advertising or personal selling. The other elements of the marketing mix also communicate. Where you chose to

make your products available, can provide your product with certain connotations. The perfume companies go out of their way to ensure selective distribution. They have fought hard, with some success, with the EU commission against allegations that their practice of selective distribution is in restraint of competition. Price also conveys certain communication cues.

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Consumers' knowledge of prices or price ranges is not necessarily a measure of the cost or sacrifice involved. Buyers also use price as an indicator of quality. There are certain characteristics relating to the product itself that can enable the brand owner to use price as a cue to quality.

When the customer perceives significant brand to brand variation in quality within a product category they are inclined to use price as a cue to evaluating brands. In the salt product category the consumers see little, if any, brand to brand differences. Salt is practically a commodity. The same cannot be said in the case of cosmetics. Here, many consumers

believe that the differences in the prices are a reflection of their quality. This may be reinforced by the familiarity of a brand name. This is also a quality cue to consumers for which they would pay a higher price.

Price and gift items

Christmas is an important time for many companies as during this time they experience a seasonal peak in sales. Many of these purchases are gift items.

This is of course not the only time we buy gift articles. Few of us have not had occasion to buy a gift for someone or for a wedding, party or other function. Price is an important communication cue when we come to buy gift items. Here a high price serves to reduce the purchaser's risk relating to the embarrassment of giving a poor quality gift.

Items given as gifts tend to have above average margins. With this sobering thought to all of you that have by now given your Christmas presents may I wish all readers a prosperous new year.

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