

The impact of advertising on consumer price sensitivity marketing essay



Selling things are the focus of any business and to sell a product marketing is a key factor and main step to make people buy the product. In addition, the foremost thing under marketing is advertising, which is the only way with which you can change the perspective of the product in people's mind. It is actually a form of communication intended to persuade and audience (viewers, listeners or readers) to purchase the product.

The intention of actually enlightening on advertising is to know whether advertising has any impact on consumer price sensitivity or not. It does affect the consumer and their buying behavior but to what extent what are the variables and how this is effecting consumer's sensitivity toward purchasing a certain product is been elaborated below.

H0: Advertising Have an Impact on Willingness to Pay by a Consumer

It is relevant to my article because of using demand curve to gather the impacts of advertising on consumer price sensitivity. In this paper " The Impact of Advertising on Consumer Price Sensitivity in Experienced Goods Markets" written by Tullen Erdem, Michael Keane, Baohong Son (2007), four categories of consumer goods are considered to examine how TV advertising and other marketing activities affect the demand curve facing a brand. Advertising affects consumer demand in many different ways. The authors observed in this article, that advertising is a reason to fall consumer's " price sensitivity" for a particular brand. To understand how advertising effects price sensitivity one needs to estimate how it shifts the shape of the demand curve, which means estimating a demand system for all brands. Estimation of demand among four products, resulting one had a different response in

WTP and that is because of focusing on one distinctive feature of the product. The effects of advertising on the shape of the demand curve depend on vertically or horizontally differentiated (attributes) of the product. Advertising stresses on vertical (claims marginal consumers) and horizontal characteristics (a brand perceived as having an advantage) will increase WTP most for those infra-marginal consumers.

A supermarket scanner data used on four product categories to examine how advertising use experience, price, promotional activity in the determination of demand. Advertising affect the price elasticity of demand in two different ways: Firstly, advertising affect the limits of the demand functions of individual consumers more or less price sensitive, secondly advertising may affect the number of the set of consumers.

The toothpaste and toothbrush panels cover 157 weeks including households in Chicago and Atlanta while ketchup and detergent panels cover 130 weeks included households in Sioux Falls, South Dakota and Springfield. Weekly advertising intensity measures gross saving points for each brand in the market and 60% of households linked to TV ads for last 51 weeks restricted only who bought 3 times over the period. The toothpaste panel contains 345 households who made 2880 purchases, toothbrush panel contains 167 households who made 621 purchases; detergent panels contains 581 households who made 3419 purchase and ketchup panel contains 135 households who made 1045 purchases. Advertising provides more “ soft” information in the ketchup category (differentiated horizontally e. g. thickness in Heinz) and more “ hard” information (vertically differentiated like quality, such as cavity fighting power in toothpaste, removal of plaque in <https://assignbuster.com/the-impact-of-advertising-on-consumer-price-sensitivity-marketing-essay/>

toothbrush and cleansing power in detergent) and is obvious that nature of ad varies according to product. Advertising is more likely to increase price sensitivity and lead to more pro-competitive effects when the “hard” information is in advertising (e. g. relative quality information) rather than “soft” (e. g. image oriented). All products observed by different brands of same category by market share, mean price, ad frequency, display frequency, feature frequency and mean coupon availability. The statistics are in this way that there are three kinds of variables, like percentage of purchases (covers brand loyalty), ad viewing habits, and willingness to pay with reference to prices that offered.

For all 18 brands, advertising reduces price sensitive but increases the prices. Advertising is not profitable because it lowers the elasticity of demand, but lifts the level of demand. The more the noisy signs of product attributes in advertisements have lower variance alternative and have greater WTP while non-risky consumers have higher variance even for the same features. This relates to the view that non-price advertising affect differently due to consumer’s diverse tastes. Advertising raises the level of demand by increasing the equilibrium price elasticity and decreasing the equilibrium price. Price advertising and non-price advertising affects the demand curves by costs of gaining information related to price, types of consumers and consumer’s tastes that visits the stores. People who are less sensitive to price are uncertain about attributes. Price advertising affects store’s demand curves differently if consumers have different costs of acquiring price information, and different types of consumers visit each store. It means that advertising is complimentary to consumption and is

consistent with models where advertising increases WTP for a brand by producing artificial differentiation and conveying information about brand attributes

Variables: Brand choice, Information and market power, Quality of the brand, Existence of the brand, Heterogeneity of consumer's tastes, Attributes of the brand, Awareness of substitutes, Ad design, Brand differentiation, Barriers to entry and Experience.

H0: consumer price sensitivity moderated by brand credibility

This article “ How Advertising Influences Brand Credibility and Consumer Price Sensitivity” written by Tulin Erdem, Joffre Swait, Jordan Louviere (2001), connects with my topic in this way that it explains the implication brand credibility of an advertised brand on consumer price sensitivity. Every brand has different affects on consumers on various stages on their decision of choices of a brand. It passes through different utility functions. The paper enlightens the fact, brand effects with information economics depth to analyze whether consumer price sensitivity, consumer valuation of a product's overall attractiveness or utility, has an impact by brand credibility, after making a choice of a brand by advertising. The impact of brand credibility on consumer price sensitivity across class that absorbs different levels of consumer ambiguity, four different types of product's utility analyzed which are Frozen concentrated juice (Dole, Minute Maid, Sunkist, Tropicana and Welsh's); Jeans (Calvin Klein, Gap, Lee, Levis, Wrangler's); Shampoos (Clairol, Herbal Essence, Pantene Pro- V, Pert Plus, Salon Selective) and Personal computers (Apple, Compaq, Dell, Gateway, IBM)

<https://assignbuster.com/the-impact-of-advertising-on-consumer-price-sensitivity-marketing-essay/>

Two types of data relevant the hypothesis; firstly, confirmatory factor analysis (CFA) to obtain brand credibility of the most advertised brand's at individual level in each of the four categories; and secondly, by price manipulations of the same brand to know the credibility. Subjects rated all five brands individually to estimate the credibility by them and completed a simple pricing choice experiment involving 17 choice sets in each of two product categories in addition to this, there was a distracter task that includes questions regarding their personal values to minimize the chances of linking two tasks. These four products chosen subjects could relate to them.

They asked to assess how confident they would feel measuring new products in 21 different product categories before trial, after one trial and after a year of use (using 7- point agree/disagree scales)

These results suggested that, as a group, the subjects viewed frozen juice concentrate more as a search good, jeans and shampoo as more short- to medium-term experience goods, and a PC as a longer-term experience good. Subjects in the pre-test (n = 31), main and supplementary (n = 170) surveys were undergraduate students at two major North American universities. Final sample sizes for the main survey were, respectively, 221, 232, 217 and 198 for juice, jeans, shampoo and PCs. The main survey took approximately 35-40 minutes to complete.

Brand credibility decreases price sensitivity but the intensity of the consumer's choices differs with products. The emphasis is on the product category factors that could affect the impact of brand credibility on price

sensitivity. Consumer characteristics also might determine the level of impact of brand credibility and price sensitivity. Observed results suggest that the interaction between brand price and credibility is heterogeneous, which suggests that it is likely to be associated with consumer specific characteristics and the level of advertisement occur in certain period.

These types differ in consumer uncertainty about product attributes plus in specific features in categories that affect sensitivity to uncertainty. It argues on the impact of price on consumption of a credible brand when there is asymmetric information through advertising. Economic framework suggests that brand credibility moderates price sensitivity under uncertainty. In high latent risk and high involvement categories, in which consumer purchase decisions may be quite complicated, the predicted effect was bigger. Price effects strongly recommend that credibility offer number of consumer benefits, which decreases price sensitivity.

Variables: Brand credibility (trustworthiness, expertise, usage), Brand choice, Product category, Product attributes, Brand name and Consumer benefits.

H0: online medium effects consumer price sensitivity more than offline medium

To see the impact of online advertisement on advertising price sensitivity is the reason behind choosing this article. According to article " The online medium and consumer price sensitivity" written by Venkatesh Shankar, Arvind Rangaswamy, Michael Pusater (1999), paper explains a logical framework regarding the assumption that internet increases price sensitivity and intensify price competition and factors characterizing the online <https://assignbuster.com/the-impact-of-advertising-on-consumer-price-sensitivity-marketing-essay/>

medium, consumers and intermediaries to explain the main reasonable effects of the online medium in price sensitivity. The articles inspect two main aspects of price sensitivity, the intensity of customer attaches to price relative to other attributes (Price importance and price search).

About 1/4th of revenues in online shopping industry come from travel services, data set 1 comprises of both medium but specified only to Marriott international and a same with data set 2 for making different hotel reservation but for any hotel chose by the respondent with same questionnaires. They asked questions regarding most recent online reservation and most recent offline reservations. Investigation in data set 1 extends from the brand level to the product category level and overcomes problems due to self- selection bias in data set 1, to reduce impartiality, the differences in the frequency of shopping between the samples accounted for analysis.

For data set 1 primary data collected for the customers of Marriott international and comparing the attitudes and behavior demographically to the population that differ in the medium usage, examine the online medium moderation on price sensitivity and lastly stresses the effects of website factors on price sensitivity. For offline medium consumers questionnaires mailed to customers through Marriott international customer's data while for online customers, the survey posted on Marriott's website with a " new" tag. Only 214 form online and 306 from offline usable recipients (15%) enabled to respond.

Data set 2 had to go through a test provided by hospitality sales and marketing association international and customers chose on the basis of using both online and offline medium, Receiving 144 responses from a sample of 2000 customers randomly selected from the list, who chose hotel both online and offline (a response rate of 7.2%)

Talking about online medium factors interactivity and perceived depth of the message helps dampen price importance but at the same time ease of price search increases price importance, content and information interactivity does not give any significant result. Using an intermediary and product/price bundling increases price comparison and price importance. Brand loyalty and time value reduces online price search. Looking at offline medium, the perceived range of option does not diminish price importance or price search; but price search reduce because of product/price bundling by an intermediary. Price comparisons using intermediaries has a much stronger impact on price search offline than online. For both sets, the result is consistent as the online and offline models are similar. Online medium effects price importance more because

Highlights the range of product options and price bundling by an intermediary to diminish the price importance then it put emphasis on brand loyalty which decreases price search and the effect of price comparison by an intermediary and lastly it is easier to search for price information which reduces the search cost and time as well. Price/product bundling proves to be a strategic advantage for the firms, more online than offline. The price comparison using intermediaries will be more beneficial if online

intermediaries are used and provide proper service/ good description with prices and get it linked to the other sites as well.

Variables: Price search, Price importance, Price information, Non-pricing advertising, Web-site design, Targeting distribution, Brand loyalty, value of time, frequency of shopping, Alliance strategies, Online attributes price importance influence by medium- product category, demographics.

H0: Advertising Effects Evaluates In Three-Dimensional Space of Product (Experience, Affect, Cognition)

This paper named " How Advertising Works" written Demetrios Vakratsas, Tim Ambler (1999) by related to my topic in this way that it talks about the impacts of advertising on consumers which helps observe what features of ad's influences consumer behavior or changing their buying behavior. The authors gather the information about how advertising affects the consumer. Advertising effects classified into intermediate effects, for example, on consumer beliefs and attitudes, and behavioral effects, which relate to purchasing behavior, for example, on brand choice. The authors propose that advertising effects studied in a space, with affect, cognition, and experience as the three dimensions. The EAC Space adjusted according to the context: product category, competitive environment, other marketing mix components, stage of the product life cycle, and target audience. The article has reviewed former research of intermediate and behavioral effects of advertising using models from market response. Advertising can be estimate in a three-dimensional space using the dimensions of experience, affect, and

cognition (the EAC Space). The coordinates of the three dimensions can verify the importance of a specific advertising promotion.

The article have classified and reconsider preceding research of intermediate and behavioral effects of advertising using a arrangement of models preliminary from market response and ending with integrative and nonhierarchical models. The principal overview concerned the persuasive hierarchy (CA) category of models of advertising effects. Although such models dynamically engaged for 100 years but still flawed on two bases: the concept of hierarchy on which its origin cannot empirically sustained, and have eliminated experience effects.

The article suggest that behavioral (brand choice, market share) and cognitive and affective (beliefs, attitudes, awareness) directed industry to analyze the edge of context, intermediate effects, and long- and short-term behavior. In this attempt, determination of affective reactions from cognitive partiality evaluated and this is especially important for low-involvement products for which habit and affect are much more important than cognition. On the contrary, it is safe to say that effects of advertising can calculated by (EAC) space of any product but the dimensions can vary from product to product and hence the importance of dimensions as well.

Variables: Consumer's beliefs, Consumer's attitudes, Purchasing behavior, Brand choice, Ad's goal diversity, Product category, Competition, Stage of product cycle, Target market, Market share and Awareness

H0: Price Advertising Positioning Tactics Increases Brand Equity, Price

Importance and Consumer Price Sensitivity

<https://assignbuster.com/the-impact-of-advertising-on-consumer-price-sensitivity-marketing-essay/>

H1: Non-Price Advertising Positioning Tactics Decreases Brand Equity, Price Importance and Consumer Price Sensitivity

The article “ The impact of advertising positioning strategies on consumer price sensitivity” written by Ajay Kalra and Ronald C. Goodstein (1998) examines the relationship of brands positioning strategies through advertising with consumer price sensitivity. The authors examine the link between advertising and price effects and that this bond depends on the definite advertising positioning strategies. The advertising has different objective, depending on the competitive perspective of the brand and others positioned to narrow the supposed difference between brands. The authors recognize that price- oriented advertising raises sensitivity while non-price oriented advertising decreases sensitivity.

Non-price advertising examines two tactics that fail to increase brand price equity: value-oriented positioning, attribute (meaningless) differentiation, while comparative tactics increase price importance and sensitivity at the category level.

In addition, findings bring about that advertising effectiveness measured at both the brand and category levels. The hypothesis tested in two experiments transversely different product categories, entailing that advertising effectiveness must extend other than brand rate related to attitude. Testing of how non-price advertising positioning strategies affect brand equity, price importance, and category price sensitivity. Opposing to the accepted vision, numerous types of non-price positioning tactics can diminish equity and increase price sensitivity.

<https://assignbuster.com/the-impact-of-advertising-on-consumer-price-sensitivity-marketing-essay/>

Ninety graduate students at a major west coast university volunteered to contribute in experiment carry out in one of four experimental surroundings and as an incentive for \$100 lottery given. They asked to analyze a rough advertisement for a new product and under high-involvement, circumstances and advertising positioning varied without the alteration in the brand attribute information in the advertising copy. The experiment designed within one factor and four level of advertisement positioning.

An advertisement can have particularly dissimilar effects at each level like at comparative level will be beneficial for minor brands but not for premium brands, because it will increase price sensitivity for whole product category.

The results also suggest that brand equity and advertising effects must assess in terms of both attitudes and behavioral manifestation. Pricing effects happen because of advertising, when attitudes extracted from the analysis. Nevertheless, the case is different in low involvement where meaningless attribute positioning and celebrity endorsements could significantly affect brand equity and category price sensitivity. Emotional appeals and fear appeals as attitudinal effects also influence advertisements in a cognitive manner.

On this note, the conclusion made that non-price advertising positioning strategies affect brand equity, price importance, and price sensitivity and promotional price advertising increases price sensitivity, whereas non-price advertising decreases price sensitivity. Several types of non-price positioning tactics can decrease equity and increase price sensitivity and brand equity

measures extend beyond attitudes and include the ability to demand a premium price.

Variables: Advertising- positioning strategies, Brand equity, Celebrity endorses positioning, Meaningless attribute differentiation, unique features positioning, Brand comparison and Value positioning

H0: Price Sensitivity is Measureable

The paper “ Price Sensitivity Measurement” written by Robert C. Lewis and Stowe Shoemaker (1997) elaborates on the measurement of price sensitivity through hospitality industry, to see the determinants of price sensitivity are the reason of choosing this article. Instead of using price methods on trial basis and error to determine the right price for products or services, a hotel or restaurant operator can use a relatively simple survey tool to measure customer’s price sensitivity. The prices for services faces at least three complicating factors: Customers often have inaccurate or limited reference prices (i. e. right prices) for services, they use price as a key signal for quality and monetary price is the only cost for service customers. Reference prices have complicated the different needs of customers in two ways: The interpretation of price (value based) on the buyer’s view and the relationship between price and value. A price sensitivity measurement determines how consumer’s perceptions of the value affected by the interaction of price and quantity. A study conducted in which consumers asked to state the highest and lowest prices to which they purchase selected inexpensive items, showed that price act as a quality indication but not an absolute barrier to purchase. Actually, the price sensitivity measurement examines price

<https://assignbuster.com/the-impact-of-advertising-on-consumer-price-sensitivity-marketing-essay/>

perceptions by determining levels of customer's resistance as they relate to perceived quality and the market range of acceptable prices for a specific product or services.

Authors examined the application of the price sensitivity measurement model (PSM) to the association meeting market. The five components of our hypothesis are as follows: firstly, a point at which hotel room rates considered cheap or expensive; the price considered too cheap and quality questioned; no matter what the quality and price is, it is too expensive and purchase is beyond consideration and lastly a way to measure the above points. In addition, these are the questions to analyze the value of a product or service. The last two questions are actually to measure the optimal price point. Room rates are a definite factor in the meeting planners purchase decision. The hypothetical situation considered was to plan an annual convention for organization to hold in Des Monte with expected attendance of 300- 500 attendance, which will last four days, and hosted in first class hotel. Rooms single occupied and participants will stay at the same hotel and the chosen (four) hotels without any prior experience. Final decision based on four questions and the design made with two objectives in mind: to minimize the intervening variables that might enter into the situation, thereby affecting their respondents and expect respondents to projects their associations needs and into the situation. Survey to send to a random sample of 443 association-meeting planners and received 115 usable responses (constituting 33% response rate).

The study has indicated the existence of a range of acceptable prices for meeting planners. it can be helpful in determining to compare the perception <https://assignbuster.com/the-impact-of-advertising-on-consumer-price-sensitivity-marketing-essay/>

of specific brands, the competition and variables within a product line. The result showed that the price sensitivity measurement technique could most likely apply to the hotel industry though there is no basis for interpreting the results. It could give the indifferent point, an indifference percentage, and an optimum pricing point, a stress level and a range of acceptable prices on lodging industry benchmarks with which to compare those values. In addition, the conclusion made that some meeting planners have in mind threshold prices outside of which price will inhibit their decisions to purchase. The degree to which they are price sensitive (respondents) is difficult to determine.

Variables: Quality, Product features, and consumer's perception of value

H0: An increase in non-price advertising leads to lower price sensitivity among consumers

H1: The use of price advertising leads to lower prices

H2: An increase in price advertising leads to higher price sensitivity among consumers

The paper " Empirical Generalizations about the Impact of Advertising on Price Sensitivity and Price" written by Anil Kaul and Dick R. Wittink (1995), is linked to my topic in this way that this paper have made generalization statements which works as a medium for measuring the impact of advertising on consumer price sensitivity. The term empirical generalizations suggest the same results comes out in different circumstances and are gathered on outcomes from varied marketing strategies and the result will

<https://assignbuster.com/the-impact-of-advertising-on-consumer-price-sensitivity-marketing-essay/>

help estimating the price insensitivities and making a strategic decision about market segmentation, price-marketing activities and competitive market strategies. Two types of advertising are Non-price advertising (national advertising) gives the information about the brand positioning and its intentions to communicate about the characteristics (unique) of the brand and Price advertising (local characteristics) gives the information related to price and availability of the brand. A change in price sensitivity is measured either by Researchers employing experiments (interaction between advertising and price) or by econometric researchers (use price elasticity). It generates a set of three empirical generalizations after studying the previous marketing methods:

The approach is to analyze the characteristics and results of previous studies providing explanations on the relevance of these generalizations means the relationship between advertising and price sensitivity observed by an overview of 18 studies. The observations made from a large set of products e. g., new products, mature products, consumer (non-durables) and durables, services with identification the type of product, the number of brands, the type of advertising, the measure of advertising and price sensitivity, and the type of interaction (result). Three implications considered to assess the link between advertising and price sensitivity: Firstly, the difference between price sensitivity of current consumers from additional consumers attracted by increased advertising. Secondly, the measurement of price sensitivity whether aggregate (price elasticity) or disaggregate (brand choice to price) data. Third consideration is about target market. If market were highly price-sensitive, then the “ ceiling effect” would be a

partial effect of price advertising on sensitivity but if it is of price-insensitive, non-price advertising will slightly influence the price receptiveness. The results specify that in nine studies price sensitivity increases with higher advertising, in seven studies it decreases with higher advertising, and in two cases both effects are attained. Considering only those cases where at least three studies have provided the same result.

Focus is on the area of price advertising as moderators such as market share, similarity of brands' characteristics or benefits, product life cycle, and the number of competitors, in affecting this relationship and is large enough to alter the brand choice. Moreover, creates variation on price sensitivity due to increase advertising from 20% to 180%. Considering this fact that product-related and other factors that affect the amount of change in price sensitivity in such situations, the conclusion is that non-price advertising reduces the price sensitivity(accepts H0) and falsifies H1 and H2.

Variables: Brand positioning, Product information, Product differentiation, Brand loyalty, Brand choice, Product market level, Type of product (new products, mature products, consumer nondurables and durables, services), Advertising content, Market share, Similarity of brands' characteristics or benefits, Product life cycle and Number of competitors.

H0: Advertising Builds Market Power

Similar to above article this article " Price Sensitivity and Television

Exposures" written by Vinay Kanetkar, Charles B. Weinberg, Doyle L. Weiss

(1992) elaborates the contradictory findings with regard to increases in

brand advertising activities lead to increase /decrease in price sensitivity.

<https://assignbuster.com/the-impact-of-advertising-on-consumer-price-sensitivity-marketing-essay/>

Mentioning the lack of data to measure the revelation of one's households to advertisements and to restrain competitive activities has been a major limitation to date. This paper finds in high-level of publicity of the product, household's brand's choice and price sensitivity can decrease for two frequently purchased products though it says that increased advertising linked with increase household's brand choice and price sensitivity as well. For a number of decades researchers have been attempting to understand the impact of marketing mix variables (price and advertising) on sales (or market share) of purchased goods. However, the interaction of price and advertising has not completely measured. Set of models designed to examine the effects of advertising's on price sensitivity.

Dry dog food accounts for about 60% of total consumer expenditures and eighteen of the 39 brands have large differences in advertising intensity with only one brand had a market share greater than 10%, there were 186 unique brand available to consumers. Because of so many brand choices, minor brands combined into aggregate brand categories. In addition, brand-sizes ignored for three reasons. First, television advertising focuses on brand benefits and does not deal with package size. Second, the package size decision is likely, not a purchase-to-purchase decision. Finally, for the sample households, more than 70% of the dog food purchases were for a package size of five pounds. To reduce the number of alternatives to a manageable size, brands grouped into aggregate categories according to the size of their market share of 5% and brands advertised and not advertised, so the number of alternative comes down to 11. All brands' attributes compared to each other as alternative of others. A similar procedure applied to the

aluminum foil data. The aluminum foil market (in the test city) was aggregated to consist of three “ brands” or choice alternatives, one major brand, private brands, and generic brands. Only the major brand advertised on television and the results were similar of that dog food.

The results are steady with the point of view that increased advertising is associated with increased brand choice and price sensitivity. In light of the effect of advertising on sales, several points noted. Firstly, the purchases vary in buying behavior of households and reflect only short run effects for advertising and the other mix variables. Price sensitivity effects are generally short-lived. In addition, results show that the indirect effects of advertising have an important effect on price sensitivity; usually that the immediate impact of advertising is still low as compared to that of other variables.

In turn, the hypothesis is constant with the confirmation that the information conveyed to consumers may not be underpinned the distinct traits and attributes of a brand. Rather, advertising may be increasing consumers’ brand awareness, strengthen resemblance with other brands, and increasing price competition at the retail level. The interpretation of this means that good advertising that builds market power is difficult to develop and maintain.

Variables: Brand choice, Market share, preferred brands, Direct competition, Awareness among consumers, Search costs, Brand equity, Display activities, and Brand loyalty.

H0: Advertising diminishes the effect of Consumer Price Sensitivity

The article “ The Effects of Advertising on Co