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How ads can influence consumer perceptions of brand pricing

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Price is at the center of the concept of brand. As the late management guru Peter Drucker once wrote, "If you can't charge a premium price for your product then you don't have a brand!"

In this article we will examine the role of advertising in influencing consumers' perceptions of a brand's price, looking specifically at a test of ads in the over-the-counter (OTC) drug category. This test, along with other research we have conducted, shows that quality ads - and, also, ads that engage the viewer emotionally - can have a real impact on price expectations.

The ability to charge premium prices is the reason why businesses that own brands are generally more profitable than businesses that do not. In the Wild West days of capitalism, the first brands were created as markers of quality to reassure consumers buying mass-produced goods from distant, unknown manufacturers. Good value was defined as good quality at a fair price. From those earliest days, a fair price for a brand was understood to be more than the price you would pay for unbranded products.

In some cases, such as high-image categories like perfume, where the definition of quality exists almost entirely in the mind of the consumer, a premium price became itself the

proof of quality. In these cases, raising - not lowering - the price of the product was the secret of selling more product.

Anti-brands

Of course, over time clever marketers have also created anti-brands - brands where their positioning in their category is lowest price. In the personal care category, Unilever's Suave traded price premium points for huge market share by convincing consumers that the benefits claimed by the premium-priced brands were not real advantages but rather mere advertising puffery, so that the smart consumer could buy the same beauty benefits from them at a better price.

In the insurance category, Geico rapidly built its fast-growing business on the simple claim that "15 minutes could save you 15 percent" and uses geckos and cavemen to implicitly make fun of the serious, complicated claims of other insurance companies. Wal-Mart pursues the same strategy in retail of aggregating consumers based on low prices rather than segmenting consumers based on secondary benefits. But like premium-priced brands, even anti-brands need to create this perception of low-priced value with advertising.

Advertising returns the favor

Most brands pursue the strategy of advertising a brand-differentiating benefit and charging a higher price for it. The higher ROI associated with the price premium versus commodity pricing is the source of advertising funding. Advertising returns the favor by building brands in the minds of the consumer.

Marketing-mix modelers are currently in vogue for using their econometric models to estimate the ROI associated with

advertising campaigns. Their hard, scientific numbers are used to justify advertising funding decisions to corporate CFOs. After the baseline calculation, price is usually the most important variable in the models they build to explain a brand's sales.

But according to Bill Harvey, a long-time media thought leader and vice-chairman of TRA, a New York sales data provider, "Ninety-nine percent of marketing-mix models do not take the quality of advertising into account in explaining sales." Almost all these models treat price as a variable independent of advertising.

Marketing-mix models represent a behaviorist conception of the marketplace. If you lower price, sales go up as more consumers buy your product. If you raise price, sales go down as fewer consumers buy your product. Similarly, if you advertise, sales go up as you either draw new users to the brand or sell additional products to current users. If you stop advertising, sales go down as consumers revert to baseline behavior. It's purely a body-count business.

Interaction between advertising and price

The possible interaction between advertising and price - the idea that advertising could cause consumers to think that the brand is worth more and be willing to pay a higher price for the brand - is not really taken into account in most marketing-mix models. Advertising's impact on the price elasticity of a brand, and not just penetration and repeat purchase frequency, may be another mechanism by which higher-quality advertising can lead to a higher advertising ROI.

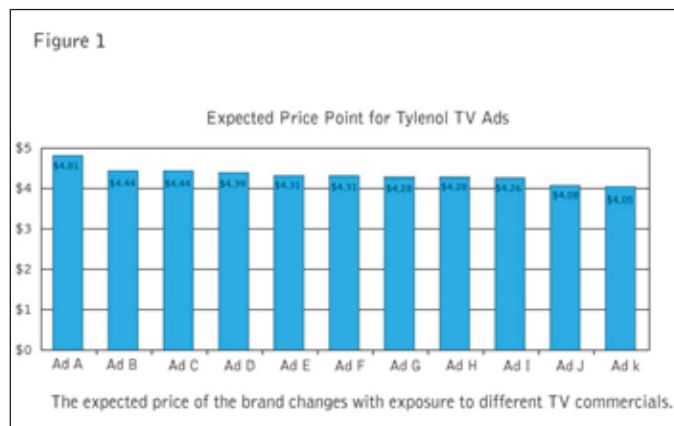
As Harvey looks at his single-source data, which combines millions of households' worth of consumer buying behavior with a complete set of second-by-second television viewer data from set-top boxes, he finds numerous examples of advertising quality making a big difference in the ROI of advertising.

Harvey's definition of ad quality is, itself, a behaviorist measure, since it's based on data from set-top boxes and frequent-shopper cards that tells them that higher-quality ads are relatively more likely to be watched than skipped over. Moreover, he has found that quality ads cause positive changes in brand purchase and greater ROI.

Understanding the relationship

Our business, which is pre-testing advertising, is quite the opposite of behaviorism. Ameritest is in the business of getting inside the consumer's head to generate insights into what makes for effective advertising. Understanding the relationship between price perceptions and advertising quality is one of the areas we've explored.

In a number of product categories, for example, businesses generally understand that they must advertise in order to get consumers to pay more for their brand than the cheaper store brand sitting next to it on the shelf. Ready-to-eat cereal brands, for example, can sometimes cost several dollars more than the comparable store-brand knock-off. Another category where the premium versus the generic alternative can be quite high is the OTC drug category.



To further examine this category, Ameritest used its CompetiView service to gather the responses of 3,300 consumers to 33 pain reliever on-air television commercials. The purpose of this service is to provide clients with a systematic way of learning about competitive advertising and to discover what kinds of creative approaches work best in their category. Part of our OTC meta-analysis focused on the relationship between advertising quality and consumer price expectations.

Price sensitivity

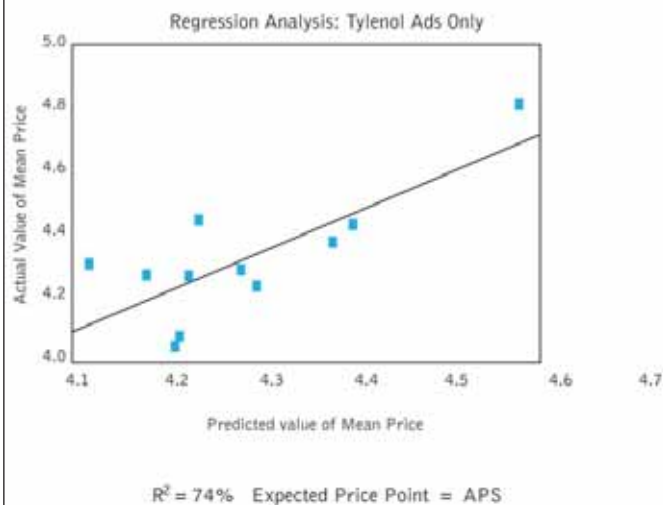
To study the impact of advertising on price expectations we added the Van Westendorp price sensitivity measure, to the standard battery of questions that we asked about each commercial in a 20-minute online interview.

The Dutch economist Peter Van Westendorp developed his price sensitivity measure in the 1970s to examine patterns of price perceptions. His method uses four simple questions that can be easily administered in a survey questionnaire. The first question asks, "At what price would you consider the product to be so expensive that you would not even consider buying it?" The second question asks, "At what price would the product start getting expensive but would still be worth considering?" The third asks at what price the product would be a good value. And the fourth asks at what price the product would be so cheap that you would question its quality. Together, these questions produce a threshold low-end to high-end range of prices that can be summarized with an average score for the midpoint.

One of the first things we learned from this study is that exposing consumers to different commercials changed their expectations of the price of a given brand. For example, if you look across the pool of 11 different Tylenol commercials, shown in Figure 1, you can see that price expectations for the brand ranged from a low of \$4.05 to a high of \$4.81 - a variation of 18 percent. Importantly, the margins associated with these two different price points - and the associated advertising ROI - would be considerably different. If you could charge 18 percent more for what you sell, what would be the impact on your bottom line?

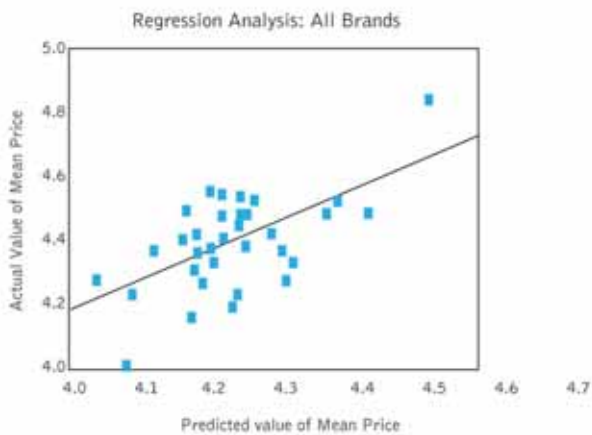
The second thing that we learned is that the variability in price expectations is highly correlated with advertising quality. The Ameritest measure of ad quality, the Ameritest Performance Score (APS), is a composite of three fairly

Figure 2a



The Ameritest Performance Score (APS) measure explains 75% of the expected price point for Tylenol's Ads.

Figure 2b



$R^2 = 51\%$ Expected Price Point = APS + Average Brand Price

A combination of the APS score and a constant variable accounting for variance in price among brands explains 51% of the expected price point among all brands.

conventional measures of ad performance: attention, brand linkage and motivation. Across the 11 Tylenol ads in our study the APS score explains 74 percent of the variation in expected prices, as shown in Figure 2a.

If we look across the six brands and 33 commercials included in this meta, the correlation drops slightly because of differences in brand equity, the product positioning ideas being communicated and so on. But even then, as you can see in Figure 2b, if you adjust for different starting prices for different brands, ad quality explains half (r-squared = 50 percent) of the variation in expected price.

Figure 3



Not just the rational

Our measure of advertising quality is, of course, a summary statistic that doesn't provide any insights into exactly what it is in the advertising that is affecting consumer expectations of price. To understand that, we need to look at diagnostics. Figure 3 shows the correlation between different diagnostic rating statements and price expectations generated by the 33 ads.

What is interesting is that it is not just the rational features and benefits of the product being communicated by the advertising that drives price expectations. In fact, the rational statements that the "message was important" or that the viewer "learned something" new from the ad, while significant, are less strongly correlated to price expectations than the statements that address the emotional component of the advertising.

Having an involving story with characters and situations that are relatable is among the strongest determinants of price expectations. (And our nonverbal Flow of Emotion diagnostic shows that emotion drives involvement.) Ads that are worth telling friends about - perhaps via social media - also boost price perceptions. A commercial that is boring and ordinary (i.e., not very creative) will cost you in terms of what price consumers would expect to pay for your product.

Strong emotional component

The lesson for economists and marketing-mix modelers who use econometric models is clear: Price is not simply a rational variable in the marketing mix. It has a strong emotional component, a component that can be directly influenced by high-quality advertising. By overlooking advertising's role in supporting premium pricing, and the corresponding contribution it can make in support of higher profit margins, advertisers run the risk of underestimating the return they can make on their advertising investment. | Q