Relationship Between Price And Loyalty For Fast Moving Consumer Goods

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Abstract: Organisations are struggling hard to sell their products to oscillating customers, as they are not always consistent in patronising a particular brand. To maintain their existence in the market, corporate follow different strategies. Branding is the process by which companies distinguish their product offerings from those of competitors (Aaker, 1991). Brand loyalty issues have generated considerable interest in recent years both in academic and managerial circles. It has become significant as companies spend millions of rupees each year in identifying the factors that affect brand loyalty. The purpose of this research is to examine the relationship between price and brand loyalty. By using a convenience sampling method, data were collected from 100 respondents. The results found out that though the price increase is inevitable, corporate should not increase the price of a product not more than 10 per cent, if it happens, the loyalty will be decreased.

Keywords: brand loyalty, commitment, trust.

1 INTRODUCTION

The new brands offer innovative features with better quality, but from the perspective of Indian manufacturers, these new entrants are major threats (Sritharan et al., 2008). One such strategy is building brands. Brands can furnish several benefits to a firm. Kapferer (1992) suggests that brands are the real capital of all businesses and represents a foundation upon which core competency is built. Brand loyalty is said to occur when a customer chooses to purchase one brand from a set of alternatives, consistently over some time (Arunkumar and Meenakshi, 2006). In the traditional sense, brand loyalty refers to repetitive purchase behaviour or to the propensity to purchase a brand again (Baldinger, 1992) or to the result of cognitive activity and decision making (Avinandan and Ghosh, 1996). Ehrenberg et al. (1990) explain that brand superiority leads to high sales, can charge price premiums and the power to resist distribution strength. Brand loyal consumers may be willing to pay more for a brand because they perceive some unique value in the brand that no alternative can provide (Jacoby and Chestnut 1978; Reichheld 1996). The purpose of this research is to examine the influence of involvement on brand loyalty. This study is intended to predict the consumers’ reaction towards different levels of the price increase.

2 REVIEW OF LITERATURE

Cataluna et al. (2006) investigated the influence of price and brand loyalty of three frequently purchased product categories on the purchase decision process of store brands versus national brands. A multinomial logit model was constructed to analyse the data obtained from a consumer panel. The results confirm that brand loyalty (behavioural) is the primary variable which influences the purchase decision process of both national and store brands. The influence of price on the purchase decision process is product specific. There is a clear distinction between the buyer’s profile of store brands and national brands. However, there is no evidence of any correlation between demographic variables and national brands or store brands. Starr and Rubinson (1978) elucidate a model for consumer package goods by which consumers could be segmented into loyalty groups. Using such loyalty groups price elasticity was measured, and high correlations were obtained for repeat rate and switching behaviour. They suggest that the systematic inverse relationship between the degree of loyalty and degree of price elasticity was developed intuitively and then was supported empirically. The brands with higher repeat rates must have a more significant percentage of shares coming from consumers who are loyal to those brands; a brand with a higher repeat rate must have lower price elasticity. Krishnamurthi and Raj (1988a) explain that consumers who are not loyal to a brand should be quite sensitive to the price of the brand in the choice decision because they have no compelling need to buy that particular brand. However, this brand is not their favourite brand, and they adjust their brand choice based on prices. The quantity purchased is not expected to be as sensitive as to the brand’s price. In addition to this, price premiums and market share have been closely associated with the increasingly salient concept of brand equity. These outcomes, which in turn drive brand profitability, depending on various aspects of brand loyalty (Winters, 1991; Park and Srinivasan 1994; Aaker 1996).

3 METHODOLOGY

A research design specifies the methods and procedures for conducting research work. There are several ways to study and tackle a research problem. This research comes under the category of descriptive study as the researcher is interested in determining the relationship between different variables. Price is one of the essential and more sensitive variables in measuring brand loyalty. It has been measured by asking the respondents whether they purchase the same product when the price increases by 5%, 10% and 15% respectively.

The literature suggests that consistency exists between the cognitive, affective and conative components of attitude, meaning that a change in one attitudinal component tends to product-related changes in the other components. Thus, to capture the rich dynamics of brand loyalty, a comprehensive measure of the construct would be needed to include all three components of attitude. Taking into consideration the conceptual definition proposed by Jacoby and Kyner (1973) and Dick and Basu’s (1994) argument for
the importance of relative attitude. Quester and Lim in 2003 addressed the measurement issue by developing a scale, which encompassed the three components of an attitude (cognitive, affective and conative). The same scale has been used in this study. The sufficient sample was settled at 100 and fed into the computer for data analysis. All these groups consisted of heterogeneous respondents with different income, education and occupation background. Regarding the Validity test, the examination of the values of the Pearson correlation for all the items used in the study indicates that there is no problem with convergent and discriminate validity. The reliability values of each variable brand loyalty (0.845) and price (0.797) used in the study the statistical validity is confirmed.

4ANALYSIS AND DISCUSSION
To predict the consumers' reaction towards different levels of the price increase. As the cost of advertising has dramatically increased in recent years, marketers are increasingly turning to price and price-related promotions as a means of influencing purchasing decisions by consumers. Thus understanding how consumers respond to price change is highly critical for marketers. Because customers belonging to different segments differ in their sensitivity to price changes. Consumers with a robust and favourable brand attitude would be more willing to pay premium prices for the brand (Keller, 1993). In other words, higher attitudinal loyalty would lead to greater willingness to sacrifice by paying a premium price for a valued brand. On the other hand, price-oriented consumers never pay a higher price for their preferred brand. To identify consumers' price tolerance limit, respondents' opinion was collected, using 3 points Likert statement for the price hike of 5 per cent, 10 per cent and 15 per cent.

Table 1: Frequency Distribution of the Respondents’ Opinion towards Price Increase

<table>
<thead>
<tr>
<th>Respondents type</th>
<th>Respondents' opinion towards purchasing of their regular brand when the price of the product is increased by</th>
<th>Number of respondents</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Agree, Agree, Agree</td>
<td>23</td>
</tr>
<tr>
<td>2</td>
<td>Agree, Agree, Neutral</td>
<td>9</td>
</tr>
<tr>
<td>3</td>
<td>Agree, Agree, Disagree</td>
<td>9</td>
</tr>
<tr>
<td>4</td>
<td>Agree, Neutral, Neutral</td>
<td>7</td>
</tr>
<tr>
<td>5</td>
<td>Agree, Neutral, Disagree</td>
<td>7</td>
</tr>
<tr>
<td>6</td>
<td>Agree, Disagree, Disagree</td>
<td>26</td>
</tr>
<tr>
<td>7</td>
<td>Neutral, Neutral, Neutral</td>
<td>0</td>
</tr>
<tr>
<td>8</td>
<td>Neutral, Neutral, Disagree</td>
<td>3</td>
</tr>
<tr>
<td>9</td>
<td>Neutral, Disagree, Disagree</td>
<td>3</td>
</tr>
</tbody>
</table>

Frequency distribution of the respondents who respond to all the three levels (5 %, 10 % and 15 %) of price increase concerning talcum powder is shown in table 1. The 100 respondents are divided into four groups (10 types) for better probing into their behaviour during the situations of the price increase. As far as talcum powder is concerned among the remaining 100 respondents, 22.9 per cent are considered to be “hard-core loyalists” (type 1) as they are not willing to change even the price of currently using brand is increased by 15 per cent. On the other end, 13.4 per cent of the respondents are found to be “minimal-loyalists” (type 10) because; they would change their brand even for a 5 per cent increase. 26.3 per cent (type 6) and 8.7 per cent (type 3) of the respondents were loyal up to 5 per cent and 10 per cent increase in price respectively, but prefer to change (to other brands) when the price increased beyond that level. An exciting outcome that is worth pointing out here is, respondents are almost transparent in their decision. No respondent is noted in type 7, i.e., natural for all the three levels of price increases. Similarly, for type 8 (undecided for two stages) and type 9 (undecided for the first stage) categories, a tiny percentage (less than 3) of the respondents are noted. This outcome leads to the conclusion that the users of talcum powder do not confuse themselves while deciding upon whether to buy or not to buy their regular brand whose prices are increased. The below-noted tables are graphically represented.

Figure 1: Graph showing Group A Respondents’ (Type 1, Type 3 and Type 6) Opinion Towards Different Levels of Price Increase.

a) Type 1 Respondents

b) Type 3 Respondents
c) Type 6 Respondents

Figure 1 shows the type 1 respondents' opinion towards price increase for all levels (5%, 10% and 15%). These respondents are committed to purchasing their current brand, even if the price increases by 15 per cent and hence, they are named as hard-core loyalists. Because of their strong preference for the brand's attributes, they choose the brand most of the time, regardless of price. Usually, these types of respondents possess the behaviour like, 'I am brand loyal and don't like to change'. They feel that the brand image fits with their personality and influenced by advertisements in their purchase decisions. Consumption of quality brands also reflects their lifestyle and stick them to a single brand. Hardcore loyalists are always conscious of the brand they buy and further they pre-decide what brand they are going to buy. They are ready to pay a premium price for the brand because they relate the high price to better quality. These types of customers do generally not switch over to other brands for the sake of trying various brands (Variety seeking). This segment is the most coveted asset for any firm and needs to be protected at any cost. Type 3 explains the respondents' attitude towards price increase at different levels. They react favourably, when the price increases by 5 and 10 per cent, but when the price increases by 15 per cent, they reacted unfavourably. These customers tend relating higher price to a better quality of the product and at the same time, search for lower-priced brands, as they are not always ready to pay a higher price for a brand. They would change brands occasionally, as they do not consider that all brands provide reliability and assurance. The point that draws our attention is that these customers are highly loyal but do not accept price increase beyond a limit. Because of their attachment to their current brand (developed due to satisfaction and affect), they might be prepared to accept a 10 per cent price hike. However, a price increase of 15 per cent is not acceptable to them. They might feel that the existing brand is not worth for proposed new price or better brands may be available at that price range. The best way of retaining this segment is not revising the price too high. Type 6 shows that the respondents are not interested in purchasing the brand if the price of the product increases by 10 per cent. Here the first level clearly explains that respondents are ready to purchase the brand when the price increases by 5 per cent, but if the price increases by 10 per cent, they will not buy it. These types of respondents are specific about the price of the product. Typically, type 3 and type 6 respondents exhibit loyal behaviour, however, with a constraint of behaving negatively towards sudden and steep price hike. These people prefer to purchase branded products and decide beforehand what brand they need to buy. They believe in 'value for money'. Companies can expect assured support from this segment only if they avoid the unwanted price hike. This loyal base may be eroded if they feel that the price hike is unjustified. The prime difference between type 3 and type 6 is the tolerance limit.

Figure 2: Graph Showing Group B Respondents' (Type 2, Type 4 and Type 5) Opinion Towards Different Levels of Price Increase.

a) Type 2 Respondents

b) Type 4 Respondents

c) Type 5 Respondents

Figure 2 explains the graph of group B respondents' opinion towards price increase. Type 2 respondents are interested in purchasing the product even if the price rises to 10 per cent. However, if it increased by 15 per cent, they will be confused as to which brand to choose, i.e. to switch away from their regular brand or not to. They expect that the price of a quality product should not be hiked more than 10 per cent. They usually are committed to their brand, and they trust the brand too. Type 4 respondents have a positive reaction, for a price increase of 5 per cent. They are undecided about their future purchase decision when the price increases by 10 and 15 per cent. These consumers frequently rotate across a specific brand set at
regular retail price. They may hesitate to buy cheaper priced items and local brands. Type 5 consumers usually have alternative brands in their mind. At a 10 per cent price hike, they get confused. However, at 15 per cent price hike, they would switch over to other brands.

A common thread that connects these 3 types is cautiousness. They are careful about their decision and hence marked neutral for 10 and 15 per cent price change. They prefer to decide after careful comparison with other similar brands. However, type 5 respondents are clear in their decision, as they would not buy their brand at a 15 per cent price change.

Figure 3: Graph Showing Group C Respondents’ Opinion Towards Different Levels of Price Increase.

Group C (Type 7, Type 8 and Type 9)

a) Type 7 Respondents

![Type 7 Graph](image)

b) Type 8 Respondents

![Type 8 Graph](image)

c) Type 9 Respondents

![Type 9 Graph](image)

Figure 3 explains the graph of Group C respondents' opinion towards price increase for all levels. Group C respondents are always not clear about their purchase decision. Notably, type 7 respondents are in a dilemma at all levels. They may or may not switch over to various brands due to the price increase of the existing brand. It is difficult to target these types of ambiguous respondents. To capture these types of respondents, corporate should avoid increasing the price of the existing brand frequently.

Type 8 respondents are somewhat better than type 7, because if the price increases by 15 per cent, they do not buy the brand. They are confident about their decision. However, for 5 per cent and 10 per cent increase in price, they possess the same characteristics similar to type 7.

Type 9 respondents are sure that if the price increases by 10 per cent and 15 per cent, they are unwilling to pay the higher price even for their regularly purchased brands. They change brands often for an increase in price and the sake of variety. They do not believe that a higher price means of better quality. However, for a 5 per cent increase, they are confused about whether to buy the same brand or not.

Figure 4: Group D Respondents’ (Type 10) Opinion towards Different Levels of Price Increase.

Consumers not loyal to a brand should be quite sensitive to the price of the brand in their choice decision. As there is no compelling need to purchase a particular brand, they might be persuaded to buy the brand for its low price. Figure 4 explains that the respondents do not accept the price increase in their brand. They are named as 'Price driven' and they always feel that 'I don't care about the brand, what is important is price'. They are not particular about buying only those brands whose image fits into their personality. They are less likely to be influenced by advertisement. Usually, they do not pre-decide what brand to buy before they shop. Primarily they do not believe that higher price brand means of higher quality. These price-driven customers are not ready to pay a higher price for branded products and search for lower-priced products. Price driven consumers are typically non-loyal buyers. If corporate increases the price, consumers will switch over to other brands. Firms have to create a strong position in the consumers' mind through product differentiation. Firms can adopt the strategy of 'line extension' where different brands/variants are marketed to satisfy price-conscious customers. This analysis reveals that Group A (Type 1, Type 3 and Type 6) respondents are stable in their purchasing decision. These types of customers need to be given prime attention as consistent sales accrue from them. Group B (Type 2, Type 4 and Type 5) respondents are clear in their brand choice but with some uncertainty. Respondents may behave on either way, as they are undecided about their future action. For these customers, price and some other factors (e.g. product attributes) may form the consideration set. Group C (Type 7, Type 8 and Type 9) respondents are unclear about their action, as they
mark ‘undecided’ even for the slight price increase. This segment is price-conscious but unable to decide on whether to continue or to change. One reason could be that they might not be interested in taking a risk by switching over to other competitive brands and might even resort to comparing their brand (price raised) with other similar brands before taking the decision. They are the prospective ‘switchers’. Group D (Type 10) respondents are the most crucial category of customers, who are highly price-conscious, but still loyal to their current brand. Firms need to think twice before making any price increase if their significant portion of the customer base is made up of this type of customers.

5 SUGGESTIONS AND CONCLUSION

After analysing the price tolerance limit, it is suggested that, though the price increase is inevitable, corporate should not increase the price of a product not more than 10 percent, because it is easily noticeable by the consumers, 5 per cent increase will not have a more significant impact, and hence organisations may think of increasing the price up to 10 per cent during unavoidable situations. However, it is advisable to the corporate not to change the price frequently as it will disturb the brand loyal consumers. One possible way of eclipsing price hike is incorporating minor modifications in the product and market them. The preliminary analysis (grouping of respondents) may help the marketing managers to categorise the individual consumers based on their brand buying behaviour with respect to price changes. This will enhance their understanding of consumer based on which brand managers can design their strategies with an eye on the category to be targeted.

REFERENCES