How Consumers Respond to Competing Market Signals: the Effects of Conflicting Quality Information and Consumer Thoughtfulness

Subimal Chatterjee, Binghamton University
Yong Soon Kang, Binghamton University
Debi Prasad Mishra, Binghamton University

EXTENDED ABSTRACT - To credibly communicate the quality of their products to consumers in markets where quality is unobservable, marketers often send quality signals. Instead of directly addressing a product's quality, signals provide information external to the product which consumers can use to make quality inferences (Bloom and Reve, 1990). Quality signals that have received attention in the marketing and economics literature include brand name (e.g., Price and Dawar, 2002), price (e.g., Rao and Monroe, 1989), advertising (e.g., Kilhlstrom and Riordan, 1984), retailer reputation (e.g., Purohit and Srivastava 2001), and warranties (e.g., Boulding and Kirmani 1993).

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EXTENDED ABSTRACT

To credibly communicate the quality of their products to consumers in markets where quality is unobservable, marketers often send quality signals. Instead of directly addressing a product’s quality, signals provide information external to the product which consumers can use to make quality inferences (Bloom and Reve, 1990). Quality signals that have received attention in the marketing and economics literature include brand name (e.g., Price and Dawar, 2002), price (e.g., Rao and Monroe, 1989), advertising (e.g., Kilhilstrom and Riordan, 1984), retailer reputation (e.g., Purohit and Srivastava 2001), and warranties (e.g., Boulding and Kirmani 1993).

Signals, however, seldom operate in isolation. For example, a seller can send multiple simultaneous signals (Dodge’s 7-year, 70,000 mile warranty mixes the warranty and the Dodge brand name), or different sellers can send different signals (e.g., Shop A’s services may be certified by the American Automobile Association, AAA, whereas Shop B may offer a warranty). When confronted with multiple signals, consumers need to make relative quality assessments (if Shop A’s certification is more / less credible than Shop B’s warranty), assessments that are likely to be moderated by at least two issues: (1) the consumers’ willingness and/or ability to think about the signals, and (2) their own information about the sellers’ quality, in particular negative information, which may conflict with the expectation of good quality associated with signals in general. In the present paper, we report two studies that test these issues.

In Study 1, participants imagine that their car needs transmission repairs and they have a choice of two repair shops, Shop A promising a warranty and Shop B promising AAA-certified services. The participants are asked to judge the two signals on the following three criteria: (a) the dissipative nature (to the extent the signal implies front-end investments in quality; e.g., Rao, Qu and Ruekert, 1999), (b) vulnerability to losses in the case of false claims (to the extent that the signal implies loss of money and reputation if the quality turns out to be bad, e.g., Ippolito, 1990, Tirole, 1988; Wernerfelt, 1988) and (c) ease of reneging by sellers (to the extent the signal allows the seller to back out of the quality promise, e.g., Price and Dawar, 2002).

The results show that, averaged across the five dimensions, the warranty and certification are judged comparable in signaling quality, but when compared on the individual dimensions, the certification scores significantly higher on tangibles. Consistent with its dissipative nature, certifications are associated with more investments in quality, although such investments do not translate into greater vulnerability, i.e., participants expect both shops to lose equally should their quality turn out to be bad. There is no difference between the two signals on the reneging criterion as well (i.e., participants believe that it is equally easy for both shops to back out of their quality promise).

In Study 2, we use the same scenario as in Study 1 but (1) put our participants in a choice situation, (2) vary the nature of external quality information available to them, and (3) separately assess the responses of lower and higher-NFC participants. Thus, half of the participants are given neutral information about quality at the two shops (the service quality at the two shops is not known, it may be good or bad), while the other half of the participants are provided with conflicting quality information (more than 80% of past customers have rated both shops as poor or very poor in quality). We measure NFC by asking participants to self-rate themselves on the 18-item NFC scale (Cacioppo et al., 1984) and then create a composite NFC score for each participant by averaging the items. A median split of the average scores separates the lower and higher-NFC participants.

We assess likelihood of shop selection with two items: (1) What is the likelihood that one of the two shops will be your first choice, and (2) What is the likelihood that you will do more business with one of the two shops in future, on 9-point scales ranging from 1=Definitely Shop A to 9=Definitely Shop B. To account for alternative explanations, we control for (1) warranty coverage effects by manipulating the warranty coverage at two levels: low (6 months, parts and labor), and high (7 years, parts and labor; Price and Dawar, 2002), (2) familiarity with automobile services by explicitly assessing participants’ familiarity with car repair shops on a 9-point Familiar / Unfamiliar scale, and (3) the underlying consumer motivation to seek gains or avoid losses (Higgins, 1997) by having participants self-select one of the following two options that best describes what is more important to them: making sure that I get what is good for me, versus making sure that I avoid what is bad for me.

The Figure shows the results. In neutral conditions when signals are the only information available in the market, higher-NFC participants are more likely to select the certified store compared to their lower-NFC counterparts. Testing the individual scores against indifference or 5.0 shows that higher-NFC participants significantly prefer the certification over the warranty, whereas lower-NFC participants significantly prefer the warranty over the certification. Introducing conflicting information equates the preferences of the two groups and makes both higher and lower-NFC participants indifferent between the two signals.

The results have several implications for sellers. At the simplest level, sellers need to realize that, in a competitive environment, signals will appeal differently to different segments stemming from the fact that a certain degree of cognitive sophistication is required for consumers to understand the quality implications. Furthermore, sellers should understand that signaling effects are moderated by any quality information that consumers may possess outside of the signals. It is critical therefore that sellers match their signals with the right quality communication. A certification signal, for example, should be accompanied by additional quality communications that stress front end investment in quality. Similarly, warranty signals could emphasize the sellers’ contractual obligation (i.e., difficulty of reneging) and, conditions permitting, promise unlimited or extended coverage.
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FIGURE
External Information by NFC Interaction on Signal Preference

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