The Signaling Effects of Advertising and Distribution

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We examined the signaling effects of advertising and distribution by treating them as extrinsic cues that potentially affect the perception of the price and quality of a product. A structural equation model was used to examine the nature of these relationships. The perceived amounts of advertising and distribution had more profound signaling effects than perceived price on the perception of quality. In addition, subjective norms regarding products were most influenced by the perceived amount of advertising, whereas the perception of quality was most influenced by the perceived amount of distribution.

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EXTENDED ABSTRACT

Research Objective

The “signaling effect” stands as one of the most important topics in studies of consumer behavior. Previous research has focused primarily on price-quality associations in the consumers’ cognitive processes (i.e., whether price has signaling effects on consumers’ perceptions regarding the quality of a product). Some studies have confirmed the signaling effects of price, whereas others claim that there is only weak relationship between perceived price and quality. Advertising and distribution, in combination with price and quality, represent the key components of a marketing mix, known as the 4Ps: price, product, promotion, and place. However, little signaling research has dealt with advertising and distribution as signals, and no studies have examined associations among price, quality, advertising, and distribution. Here, we propose a causal model to examine the signaling effects of advertising and distribution on the perception of price and quality.

Proposed Model

Our proposed model includes the main hypotheses underlying previous signaling research, namely, that perceived price has direct and negative effects on purchase intention, as well as indirect and positive signaling effects on purchase intention via mediation by perceived quality. We expand this model by adding the construct of “subjective norm.” This model is regarded as a variant of the Theory of Reasoned Action (TRA) insofar as it incorporates three determinants of purchase intention within the same general framework. Unlike the original TRA—and other purchase intention models proposed by signaling researchers—our model does not include attitude—and perceived value—because of evidence demonstrating direct links between belief and intention and also because of the difficulty in disentangling the direct effects of subjective norm on intention from the indirect effects as mediated by attitude. Finally, the signaling effects of perceived amounts of advertising and distribution on perceived price, quality, and subjective norm were introduced in this model.

The signaling effects of perceived amount of advertising on the perception of quality rest on the idea that honest sellers that provide high-quality products are more likely to expect repeat purchases compared to dishonest sellers that provide low-quality products. Moreover, heavy advertising may lead consumers to inferences by consumers that these advertised products are more familiar than unadvertised products, increasing the likelihood of the subjective norm. Consumers may also infer that well-advertised products are higher in price simply because the heavy advertising results in higher cost.

The presumed signaling effects of perceived amount of distribution on perceived quality rest on the idea that highly distributed products (i.e., products sold by many retailers and/or occupying more retail shelf space) are perceived as higher in quality because of some assumed link between product value and its prevalence. Moreover, consumers may infer that highly distributed products are popular and hold higher subjective norm. However, our model does not include the hypothesis that higher distribution causes the perception of higher prices because consumers have equally direct access to both price and distribution when they visit stores.

Methodology and Results

Our proposed model was tested empirically by distributing questionnaires to 263 university students. Consumer data pertaining to a new released hard-disc-driven (HDD) portable music player/recorder (i.e., a competitor of iPod) were collected. For the structural equation modeling, we used multiple scales developed in previous signaling research.

Scaling and model estimation were conducted successfully, resulting in support for seven of nine hypotheses examined. It may have been that the hypothesis regarding the direct effect of perceived price on purchase intention was not supported because the respondents did not regard price as important when choosing high-tech HDD portable music players. The hypothesis regarding the signaling effect of perceived price on perceived quality and, therefore, indirect effect of perceived price on purchase intention, may have lacked support because the respondents may have preferred advertising and distribution to price as signals of quality.

Our results suggest that perceived amounts of both advertising and distribution might be stronger signals than perceived price. This finding is pertinent to the controversy concerning the weakness of the signaling effects of perceived price on perceived quality. Our results demonstrate that the signaling effects of the amount of advertising carry the greatest effect on the subjective norm, whereas those of price and distribution carry the greatest effects on perceived quality. We believe that these findings will fill an important void in the literature regarding the signaling effects in studies of consumer behavior.