The Impact of ‘Known Value Item’ (Kvi) Prices on Product Price Perceptions and Expectations

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In four experiments, we demonstrate a direct contrast effect and an indirect assimilation effect (mediated by perceived assortment expensiveness) of Known Value Item (KVI) prices on target products’ price expectations and evaluations. We find that the relative strength of contrast versus assimilation depends on assortment size and user status.

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EXTENDED ABSTRACT

We propose and test an integrative framework of Known Value Item (KVI) price effects on (1) perceptions of assortment expensiveness, as well as (2) expected prices for products that are to be introduced in the assortment, and (3) perceived expensiveness of specific target products with a known price. Central to our framework is the proposition that KVI prices affect other price perceptions through two routes. First, KVI prices serve as a signal of assortment expensiveness, and assortment expensiveness is used to predict the future prices of upcoming products through assimilation. Since KVI price as such is not informative for predicting prices of newly to-be-introduced products, we expect that assortment expensiveness fully mediates this effect. Second, we posit a similar assimilation process for target products that are already part of the assortment (and for which prices are known): KVI price acts as an indicator of assortment expensiveness, which in turn acts as a cue for target product expensiveness (i.e., assimilation). But at the same time, the price of the target product is evaluated relative to the KVI price, with higher KVI prices making the target product price appear relatively less expensive (i.e., contrast). The effect of KVI price on assortment expensiveness is moderated by KVI user status (with a stronger effect for users vs. non-users). Assortment size is hypothesized to attenuate the impact of KVI price on assortment and target product expensiveness, but to strengthen the effect of assortment expensiveness on target product expensiveness. The model is put to the test in four empirical studies (that also include intentional outcome variables). Study 1 and 2 focus on upcoming, but as yet unpriced products; Study 3 and 4 focus on priced products already available in the assortment.

In Study 1, respondents (N = 82) were randomly assigned to one of two experimental versions of a bar price list (Low KVI price, with lager on tap at €1.50 vs. high KVI price, €2.50), and rated assortment expensiveness, the expected price of a new product the bar would introduce (a mojito cocktail), and their intention to visit the bar. Results showed a significant positive effect of the KVI price manipulation on perceived assortment expensiveness and of assortment expensiveness on expected target product price and visiting intention. Assortment expensiveness fully mediated the experimental effect on the outcomes.

In Study 2, respondents (N = 582) were shown a fictitious bar price list with three experimental conditions: Lager on tap 25cl priced €1.80, 25cl priced €2.40, or 33cl priced €2.40. Respondents rated assortment expensiveness, price expectation for a non-existing product (a mojito cocktail), and intention to visit this bar. Finally, respondents selected the beverage they most commonly order when visiting a bar. We tested whether KVI user status (user vs. non-user) moderates the impact of KVI unit price and volume. The findings support the direct effect of KVI unit price on perceived assortment expensiveness, and the indirect effect on expected target product expensiveness also observed in Study 1 (with full mediation). KVI users show a stronger effect of KVI price but are also more likely to (correctly) discount the effect of package size increases on price. Nevertheless, for both KVI users and non-users, a change in package size (leading to a decrease or increase of the absolute price of the KVI) can trigger similar effects as lowering or increasing the actual price of the KVI.

In Study 3, respondents (N = 447) saw a fictitious online Neuhaus chocolates store, including two priced products: the Neuhaus Ballotin as the KVI, and the Neuhaus Collection Mild box as the target product. KVI price was manipulated by varying package size at a constant unit price: a 250g box priced at €15 vs. a 1kg box priced at €60. Participants rated target product expensiveness, assortment expensiveness, and target product purchase intention. As hypothesized, presenting consumers with the larger KVI (with a correspondingly higher price) led to an increase in perceived assortment expensiveness, which in turn positively influenced perceived target product expensiveness and led to a decrease in target product purchase intentions. Simultaneously, however, the larger KVI also negatively influenced the perceived target price expensiveness (when controlling for the effect of assortment expensiveness).

Study 4 (N = 476) uses the same KVI and target product as Study 3, but additionally manipulates assortment size (extended vs. limited assortment). Results show that in the limited assortment, KVI price increases lead to a stronger contrast effect while the net assimilation effect stays approximately the same.

To sum up, in four studies we provide evidence that KVI prices affect price expectations of (unpriced) upcoming target products via one route (assimilation), and price perceptions of target products already offered in the assortment via two routes (assimilation and contrast) that act in opposite directions – i.e. competitive mediation. On the one hand, KVI prices affect the perception of assortment expensiveness, which in turn spills over to price expectations of non-existing target products that are announced to be added to the assortment and perceptions of existing target products already offered in the assortment - this is an assimilation effect. But on the other hand, only for existing target products, KVI prices also serve as a benchmark against which the price of an existing target product will be evaluated. Thus, lower KVI prices can strengthen the perception that the new item is expensive - this is a contrast effect.

Whereas previous research has typically addressed this as an either/or question, we add to the literature by showing that both processes occur simultaneously. Which process has the dominant effect depends among others on the size of the assortment that is shown (more extended assortments primarily weaken the direct contrast effect). Finally, the contrast and assimilation effects can be obtained not only by actually changing the price of a reference product, but also by changing the package size. KVI users turn out to be less prone to this size/price bias (i.e., they more accurately distinguish between higher unit price and larger package size).