# High Status Brands in Low Status Stores, and Vice Versa: Which Status Object Drives Price Premium?

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**Abstract**

In a number of purchasing situations, consumers are likely to base their value judgment on a combination of the product brand status and the store status. Hence, for owners of the product brand and the store it is important to isolate the status object (product or store) that primarily drives value. In a 2x2 factorial experiment we test this question, and find that consumer willingness to pay is influenced by product and store status, and that these interact in the explanation of value (when measured in terms of willingness to pay).

**Keywords:** Brand status, Store image, Willingness to pay

## 1. Introduction and Background

A major reason why companies spend money on building strong brands are the expectancy of consumers being willing to pay premium prices for products carrying such brands (Park and Srinivasan, 1994; Sivakumar and Raj, 1997). While the value of brands to consumers also relates to choice simplification, product quality signals, risk reduction and trust (Keller and Lehmann, 2006), the final outcome of these characteristics are often lower price sensitivity (Krishnamurthi and Raj, 1991) and higher willingness to pay for leading brands (Agrawal, 1996). Following the increased attention directed towards the concept of branding, the last decades have seen a vast amount of research conducted on the three primary levels Keller and Lehmann (2006) suggest brands manifest their impact on – the customer market, the product market and the financial market. In more recent years, the retail industry has seen a rapid growth in the number of private labels or store brands (Martos-Partal and González-Benito, 2011), kick starting another stream of research aimed at uncovering the performance of these private brands compared to national brands (e.g., Breneiser and Allen, 2011). However, for a great number of retailers, launching a private store brand is not an option. For example, specialty stores like jewelers, wristwatch retailers, or eyeglass shops and optometrists mainly compete on their premium priced product expertise rather than discount priced products. Similarly, while the core product of service firms like hairdressers, fitness centers and chiropractors are the expertise they offer, they also sell products related to their core service. For example, hairdressers sell shampoo and hair gel, fitness centers offer running tights and headbands, and chiropractors have special shoes and ice bags on display in their shelves. All of which are usually not in the lower end of the price range. For example, a certified climbing carabiner usually costs significantly more when bought in a specialty store like a climbing hall rather than the sports department in the local super market. While some may argue that this is due to the two stores offering different brands of carabiners, others may argue that it is caused by the super market selling higher volumes, thus being granted better prices from the producer, ultimately enabling them to require lower prices from their customers. However, if we stick to the former explanation, and assume that specialty stores often sell more expensive, higher status brands than Fast Moving Consumer Good (FMCG) retailers, then we are left with one important question: Is it the status of the specialty store or the status of the brand that motivate consumers to pay the price premium usually charged by these market actors? This, to our

knowledge yet to be answered, question is important due to several reasons. First, if the willingness to pay is primarily driven by the status of the brand, it serves as an argument for producers to keep most of the price premium on their part. Obviously, the same applies to the specialty store. Secondly, if the answer is that they are both responsible for the benefit of higher prices, it implies that they are mutually dependent on each other, and that one part can not substitute the other unless in favor of a new relationship partner with an equally high status level (Emerson, 1962). This plain, yet important question is the center of attention in the experimental study reported here.

In the most simple terms, whether a store or a brand choose to position itself as high status or low status is largely determined by their choice of value positioning strategy (Kotler and Keller, 2011). Typically, a discount store may base their image on a "less-for-less" or "the-same-for-less" kind of thinking, while the upscale store are more prone to apply a "less-for-more" or "the-same-for-more" strategy. However, this distinction is based on the instrumental value of goods sold, where a cost-benefit ratio determines what is less and what is more. In terms of branding, the functional aspects of the core product are all but some among many product attributes that determines the brands status level (Shiffman, Kanuk and Hansen, 2011). Hence, the concept of "more" or "less" is often related to other attributes than the pure instrumental ones (Park, *et al.* 2010).For example, if the only reason for buying a wristwatch is to keep track of time, a rational choice in cost-benefit terms would be a $30 battery driven digital Casio or equivalent. On the contrary, if the motivation behind the watch purchase is more related to reference group membership, signaling economic status and belonging to a certain social class or subculture, or advertise ones interest in good craftsmanship, then a $5.000 (or way more) mechanical Breitling or Omega would do the trick. Not to mention a $20.000 PatekPhilipe. To summarize, the value of a brand to a consumer, and the intention to purchase an upscale brand rather than a lower priced one is driven by a number of factors that has just as much to do with symbolic values as economic ones (e.g., Park *et al.*, 2010).

Following from this, it seems obvious that consumers can base their judgment on more than one branded object for one particular product. Similar to customers having a relationship, and being loyal, to both the service employee and the service firm (e.g., Iacobucci and Hibbard, 1999; Price and Arnould, 1999; Hansen, Sandvik and Selnes, 2003), they can develop brand preferences and attitudes to both a product brand and the brand of the store where they buy the product (i.e., the name of the store). Previous research on branding has distinguished between different types of brands, for example Individual brands, Dual Brands and Corporate brands. In her study on chocolate and cereals, Laforet (2011) found that the purchase preferences were not influences by the type of brand, implying that it made no difference whether a brand was individual, dual or corporate. In fact, she found that both supermarkets' own labels and individual brands had a negative effect in the studied product categories. In another study on multiple brand objects, Arnett, Laverie and Wilcox (2010) found that retailer-manufacturer alliances can both benefit and harm the brands included in the alliance. Stated differently, if a consumer likes (or dislikes) the alliance between two brands (e.g., McDonalds's and Innocent smoothies), this may contribute to more positive (or negative) attitudes towards the two brands. However, Arnett et al. (2010) also found that positive attitudes towards the alliance only influenced purchase intentions for the retailer brand. In our study, we build on these previous results to scrutinize whether it is the retailer or product brand that drives value judgment the most, when measured by means of the consumers' willingness to pay for the product.

## 2. Methods

To test the research questions addressed in the previous paragraphs, we designed an experiment with a 2x2 between subjects factorial design. The first factor was Brand status, which was either high or low. Similarly, the values were high and low also for the second factor, which was Store status.The experimental manipulations were constructed as anewspaper advertisement for a new shampoo. A full-page color picture served as the main theme of the ad, showing a young woman´s face and long, golden hair. The brands chosen was either Sunsilk (low status) or Redken (high status), and a shampoo bottle with one of these brands was merged into the ad picture. The high and low status stores chosen were Nikita and Rema, respectively. Nikita is the brand name for a famous Norwegian chain of hair dressers, while Rema is a national chain of discount grocery stores. We chose these two as our store brands because they are well known among the general public, and there are clear and distinct associations held towards them in terms of high end versus low end. In the bottom of the ad an informational text stated that the product was "Now for sale at Rema" (or Nikita).The store name was portrayed by using their company logo. On all versions of the ad, a selling proposition in the top of the picture said "Finally, hair treatment with the beauty potential of natural minerals".

95 female university students were recruited to participate, with age ranging from 20to 58 years. Mean age was 25.5 years, and the subjects were randomly assigned to the four experimental cells. Participants received a booklet where a brief instruction was first offered. They were then asked to flip the page, and take a close look at

the ad shown, before turning to the final page where a short survey was included to measure our dependent variables. The two questions related to price wereprice expectation and willingness to pay. The first read"How much do you think this bottle of shampoo will cost at Rema" (or Nikita), and gives us an indication of the expectations subjects have for the product´s price level. Willingness to pay indicates the maximum price the participant is ready to spend on the product, and this may be a figure completely different from the expected price (e.g., you may expect a particular product to cost 20 dollars, but only be willing to pay 10 dollars for it yourself). Willingness to pay was measured by asking "What is the maximum price you are willing to pay for this bottle of shampoo at Rema" (or Nikita)? In the survey we included a few more ad related items between these two, simply as a filler task.

## 3. Results

To test the research questions we ran a multivariate analysis of variance, with brand status and store status as the independent factors and the two price related questions as dependent variables. As can be seen from Table 1, brand status has a significant main effect on price expectations ($F=47.6$), and also on willingness to pay ($F=26.9$). Similarly, store image has a significant main effect on both price expectations ($F=82.4$) and willingness to pay ($F=42.7$). In addition to the main effects, and more interestingly, the brand status x store status interaction is also significant, both in relation to price expectations ($F=6.5$) and willingness to pay ($F=8.0$). Figure 1 and 2 portrays the two-way interactions, while Table 2 shows mean scores for the dependent variables across all experimental cells.

## 4. Discussion and Implications

The results of our experimental study hold some important implications, of which the first is related to the profit distribution in the value chain. While the status level of both the store and product brandcontributes to the consumers´ price expectations and willingness to pay, our results suggest that the product brand benefits more from being coupled to an upscale store, than vice versa. However, not very controversially, it is the combination of a high status brand in a high status store that gives the largest price premium. An important note to be made in that respect, is that our experiment is made on shampoo sold by either a grocery retail chain or a chain of hairdressers. Drawing on existing theory on brand extensions (e.g., Aaker and Keller, 1990; van Osselaer and Alba, 2003), we may argue that the perceived fit between the hairdresser and the shampoo is larger than the equivalent fit between shampoo and groceries. This, however, only implies that the stronger the fit between store and product, the stronger is the store´s position when it comes to profit allocation in the channel.

Another issue emerging from these results is what brand to emphasize in co-sponsored advertising campaigns. Obviously, low status product brands should definitely include the high status store brand whenever they have the chance, as being associated with higher status stores might have positive spillover effects on consumer judgments (Ahluwalia, Unnava and Burnkrant, 2001). It is equally straight forward that when both product and store are high status actors they will benefit from co-sponsoring the ads and thus benefit from the interaction shown in our Figure 2.

In terms of how consumers judge and decide how much a market offering is worth, our results indicate that they not only emphasize the product displayed in an advertisement, but also who is actually selling it. This implies that the value judgment is also based on secondary product attributes, and there is reason to believe that the associations held towards the high status store spills over to the value assigned to the product.

Our experiment was conducted with only two brands and two stores, and our subjects were women only. Obviously, future research would benefit from extending both the empirical setting and the theoretical dimensions of the brand concepts included in this piece of research. However, as a first attempt to scrutinize, and isolate, the individual contributions of store and product brands on consumers´ willingness to pay, we find that our results have proven this to be a path in need of more empirical research.

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Table 1. ANOVA results for main and interaction effects

|  | *Price perceptions* | *Willingnessto pay* |
|---|---|---|
| *Main effects* |  |  |
| Brand status | 47.597 [a] * | 26.931* |
| Store status | 82.410 * | 42.707* |
| *Interaction effects* |  |  |
| Store status x Brand status | 6.541*** | 8.025** |

a=F-value, *=sign. at 0.001, **=sign. at 0.01, ***=sign. at 0.05

Table 2. Mean scores for dependent variables across experimental conditions

| *Dependent variable* | *Brand status* | *Mean (st.d)* | *N* |
|---|---|---|---|
| Price expectations | Low | 86.38 (65.87) | 47 |
|  | High | 163.17 (89.98) | 48 |
| Willingness to pay | Low | 58.43 (40.58) | 46 |
|  | High | 110.95 (73.02) | 44 |

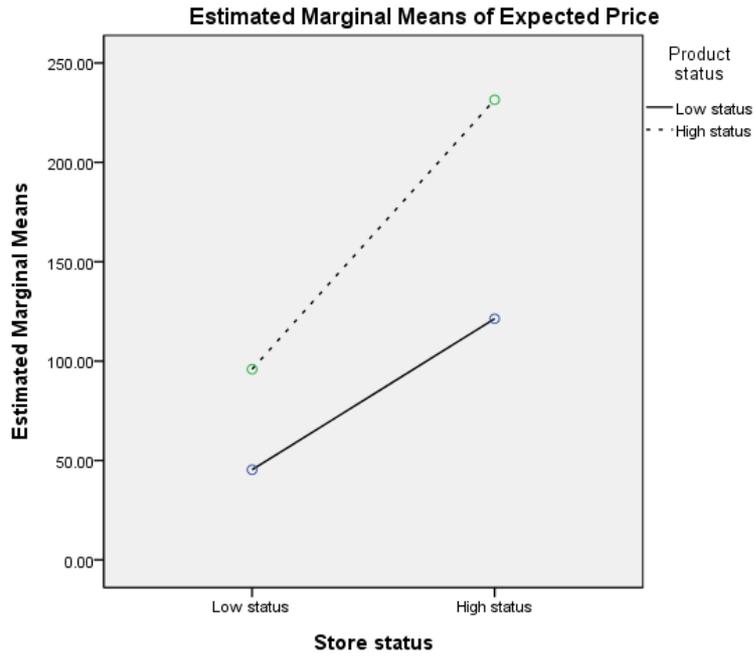| *Dependent variable* | *Store status* | *Mean (st.d)* | *N* |
|---|---|---|---|
| Price expectations | Low | 72.68 (56.75) | 48 |
|  | High | 178.74 (81.01) | 47 |
| Willingness to pay | Low | 52.01 (27.97) | 46 |
|  | High | 117.66 (73.67) | 44 |

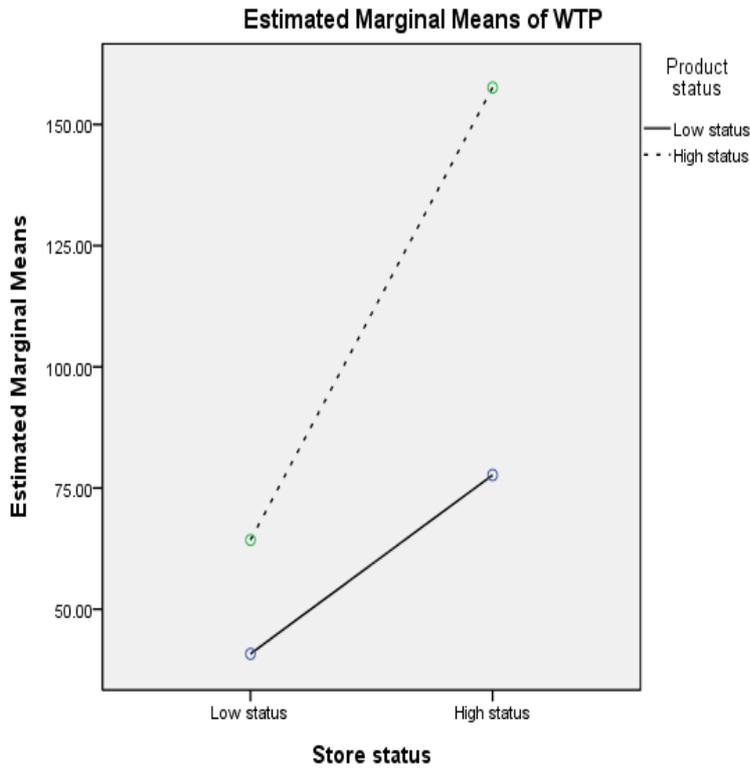Figure 1. Price expectations: Store status x Brand status interaction



Figure 2. Willingness to pay: Store status x Brand status interaction