CUSTOMER PERCEIVED VALUE – AN ESSENTIAL ELEMENT IN SALES MANAGEMENT

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Abstract
Practical understanding by the producer of the way purchasers choose between various products that might satisfy a certain need constitutes a very complex and challenging problem. The concept of „customer perceived value” and the ratio between the product price and the perceived value come to clarify this issue and, moreover, these represent two great fundaments that underlie all economic transactions. If production and selling costs mark the price lower limit, customer perceived value marks its maximum limit. The objective of this paper is to highlight the essential elements underlying the customers’ perceived value, aspects regarding its communication and the correlation that should exist between it and the product price.

Keywords: Perceived value, Price, Total sacrifice, Objective factors, Subjective factors, Communication value.

1. INTRODUCTION

Usually, customers have a wide range of products that might satisfy a particular need. The question that arises is how they choose between these products? Assuming that you build a house and you must choose its heating system. This need could be met by a variety of products, from classic wood stoves, thermal power plants with different types of fuels (solid, liquid or gas) to the wind or solar power plants.

All these respond to satisfying the basic need (to produce heat), but in addition to this need, each customer has other needs also: the desire for greater comfort, higher safety, lower operating costs,
environmental protection etc. Each of the chosen solutions satisfies these needs differently: the classic wood-burning stove will provide reduced comfort (wood must be bought, the stove must be fuelled, ash should be removed, it pollutes the environment), but it is much cheaper than solar power plant (which provides a greater comfort, protects the environment, but does not work in periods without sun and it is very expensive). The choice will vary from buyer to buyer depending on the value that each customer perceives regarding those needs and the price of the product (Deac et al., 2014). Therefore, companies might want to produce what the clients intended and needed, and moreover, what the clients perceive as needed, addressing these elements as drivers for competitiveness (Corbos, 2005, 2011a, 2011b; Popescu and Corbos, 2014).

2. PRICE AND CUSTOMER PERCEIVED VALUE

The price, considering the purchasing behaviour of customers, represents the total sacrifice consented by the clients when buying a product. The customers systematically compare this sacrifice to the value they attribute the product they intend to buy (Deac et al., 2014). Price and perceived value are the two great fundaments of all economic transactions. In our opinion, this total sacrifice consented by the customer has an objective aspect (referring to an economic sacrifice), but also a subjective side (referring also to the psychological sacrifice). Economic sacrifice consented by the clients consists of the total costs they incur in obtaining and using a product. One such indicator is composed of the purchasing price of the product plus additional commissioning costs (transport, handling, installation) and its operating costs (maintenance, repairing, assuming the risk of failure or poor performance). The psychological sacrifice, unquantifiable, but with a great impact in the purchasing decision, in some cases, is represented by the state of discomfort (cognitive dissonance) that buyers may have when deciding to purchase a product, provided that the product performances do not meet initial expectations (as no brand is perfect, consumers do not feel satisfied with certain shortcomings of the selected brand, and also with the fact that they lost other advantages of the brands that have not been purchased) or, for various reasons, they had to give up other products or options that they had for investing the available money.

Therefore, from the consumer perspective, the price transforms into a cost element, the buyer seeking through all modalities to minimize this cost. Consequently, confronted with various choices, the customer will prefer the product that confers the highest net worth, namely the biggest difference between the perceived value (which gives the level of the maximum price) and the actual purchase price. The formalization of the relationship price - perceived value is illustrated in Figure 1.
There are also opinions according to which the purchase intention is the result of the perceived value, given by the ratio between the perceived quality and perceived monetary sacrifice, a result of the current market prices (Monroe, 2003). Thus, the price is an element that determines the perceived value, taking into account especially those situations where it is difficult to determine the perceived value, customers will use most often the price as a representation of perceived quality (the higher the price, the higher the perceived quality).

We consider that the relationship of dependency must be exactly reversed. A product does not have a high perceived value because it is very expensive, but having a high perceived value it is sold at a high price.

Exemplifying the above mentioned, we assume that within an act of purchase, the perceived value of a can of soda is 2 euros, considered as maximum price. If the current sale price for the best option is less than or equal to 2 euros, the customer will buy the product and the sales volume is equal to 1; but if the price is higher than 2 euros, the customer will not buy the product and the sales volume is 0. All purchasing acts relate to that simple model of establishing the price. It constitutes the „cornerstone” of all economic transactions (irrespective of whether the action of buying is an ordinary soft drink or the most expensive company, for example).

Based on this observation, the question arises: „What actions should the company initiate in order to establish a correlation between price and value?” The most obvious solution consists of gathering information necessary to assess the value that the product provides to the client, but this process is not simple and it can be insufficient to substantiate the price and, more so, to formulate a price strategy. If production and selling costs mark the minimum price limit, the perceived customer value marks the maximum price limit.
3. FACTORS INFLUENCING THE PERCEIVED VALUE

The concept of „customer perceived value” refers routinely to the overall economy, the valuable gains, benefits or satisfaction that a buyer obtains due to the procurement of a product. Practical understanding by the producer of the way in which buyers perceive this value after using the product represents a very complex and challenging problem, requiring detailed information about product users. We consider that those „benefits” offered by the product, underlying its value determination, are both quantifiable or measurable, but also unquantifiable or less tangible. These aspects raise several questions in measuring the value (from the perspective of the buyer). Considering this aspect, the first step in quantifying the value is represented by the correct identification of all factors that influence this value. The range of factors influencing the perceived value is very wide and can be divided, in our view, into two main categories:

a. Objective factors. This category includes those objective needs of customers on which the product could have a direct impact, such as: increased productivity, savings in various categories of costs (power, fuel, raw materials, labour, product maintenance etc.), greater reliability, additional required attributes, time and others. This applies both in cases where consumers are individuals, involving consumer goods (for example, a client may consider that the fridge of „brand X” has a greater perceived value than the one of „brand Y”; therefore he is willing to pay a higher price because it has a lower consumption of electricity, higher reliability and has a warranty for a longer period), but also in situations regarding industrial goods (industrial equipment, raw materials) referring to companies as buyers (they buy „equipment Z” at a higher price than „equipment V” because it has a higher efficiency and will reduce the cost of labour, or they buy alumina from „supplier T”, although the price is higher, because the achieved energy savings are much higher compared to the situation in which they buy alumina from „supplier K”). This category also includes cases in which the product manufacturer is incorporated into the products of the buyer and gives them more value, enabling the latter to increase prices and hence profits (for example, Intel sought by all means to convince buyers that their microprocessors are truly the best. In this regard, they subsidized the commercials of PC producers bearing the inscription "Intel Inside” thus each buyer could be sure that the PC bought had an Intel processor. PC manufacturers claim that this advertisement increased the value of their products and the advertising efficiency). Knowing this fact, the manufacturer may request a higher price based objectively on the higher product value of the buyer who used its product. However, such an approach does not lack risks. In the example given, for some PC manufacturers, Intel’s success became too disturbing. This is the case of IBM and Compaq, the main providers of PCs in the USA and Europe, which are increasingly
dissatisfied with the collaboration with Intel, those from Compaq accusing them of undermining the
market activity of the company, and those from IBM are dissatisfied with how quickly Intel
microprocessors morally wear out. We consider that in reality this issue resides in the power balance of
the supplier - buyer relationship. Intel Corporation has the advantage of the bargaining power, holding
the supremacy over the microprocessor market. The approach of IBM, who have concluded an
agreement with Nexgen and Cyrix to ensure the credibility of imitation chips that these companies
produce, follow the line of counteracting the domination and reducing the bargaining power that Intel
supplier holds (Simon, Jacquet and Brault 2006).

These objective factors are mainly encountered for the products in which the focus is on their
functional side. In general, producers seek to quantify the value conferred to their products by these
factors, given that they consider they sell their consumers only the product attributes, and the
superiority given by these attributes is decisive and important for consumers. They recognize this
and, consequently, are willing to pay for it. However, in many situations this way of thinking is
erroneous; in fact, there are other elements that underpin a higher value, hence the necessity of
changing the focus primarily towards the consumer, to identify and exploit these elements underlying
the value.

b. Subjective factors. This category consists of factors that determine the value on the spiritual and
psychological level, being found in products that focus on the emotional side (comfort, pleasure,
safety, satisfaction, status, prestige etc.). In practice, they are very difficult to identify, quantify and
estimate, if not directly impossible. They are the natural extension of personality and customer-specific
objectives (for example: the technical characteristics of a luxury car can be described and even
observed very rigorously, but it is impossible to determine which of them are relevant for a particular
customer). These differ from customer to customer, an aspect for a client is something natural, normal,
for others it may have no justification (for example: for an individual, buying a Rolex Daytona Platinum
at a price of 50,000 euros it seems only natural because he wants to impress friends and business
partners, projecting an image of a successful person, whether for other individuals it may seem like
something extravagant). Typically, the value conferred by these subjective factors, much more present in
reputable products (luxury goods) may be much higher, aspect very well exploited by the vendor in
order to increase prices and hence the profits earned.

In reality, by exploiting these psychological factors, companies seek to attract buyers through
emotional involvement at the expense of the functional one. A typical case is that of Starbucks, that
the late 80s, started to transform coffee from a functional product, used under a habitual routine, in an
emotional experience or what consumers call „oasis created by coffee” selling the concept of “place of
coffee consumption", the coffee shop respectively.

The cafés offer not only great coffee, but also a pleasant meeting place, a certain status, relaxation and conversation. Starbucks has transformed coffee into an emotional experience, and the ordinary coffee consumers into "coffee connoisseurs" for whom three dollars for a cup seemed a reasonable price. The Starbucks brand has become the US national trademark with a margin of five times higher than the average of the respective industry (Cârstea et al., 2002).

What Starbucks did for coffee, Swatch did for the ordinary watches. Long considered as a functional item, these watches were bought simply to keep track of time. The industry leaders, Citizen and Seiko, competed on the advance in terms of functionality, using quartz technology to improve accuracy or electronic display (which is easier to read). By exploiting the emotional side, Swatch transformed these watches into fashion accessories. This approach was then copied by other companies in the industry (we have in mind the famous diamond watches valued at hundreds of thousands or even millions of euros, considered as veritable jewellery), or in other domains, most recently in the mobile phone industry, starting with the mobile phones matching famous fashion outfits, to the diamond incrusted mobile phones, regarded the jewel accessories.

Very few industries are more oriented towards emotional attraction, exploiting subjective factors, than the cosmetic industry. This industry sells brilliance and beauty, hopes and dreams, just as it sells products. On average, packaging and advertising costs represent 85% of the companies in the cosmetics industry (Kotler and Armstrong, 2007).

Besides these two main factors, there are others that influence customer perceived value. Returning to the example of soft drinks, it is likely that in the case of the act of purchase, the maximum price to be less than 2 euros, the perceived value may decrease over time as the customer knows the product. As the buyer is better informed, the perceived value can decrease rapidly. The customer is not willing to pay the demanded price, trying to negotiate a lower price (for example, it is easier to sell a laptop at a much higher price to an uninformed customer, but who knows that he can make a good impression with the respective laptop, it is fashionable to possess such an item, than to sell it to a computer specialist).

However, for the same refreshing drink, the consumer is willing to pay even 10 euros or more in situations where, being in a desert safari, he is are thirsty, or he is at the airport waiting for the plane or on a beach and wants to drink a cold refreshing drink. In such situations, although, the seller knows that the perceived value can be very high, he is aware that he cannot ask for a similar price of this value, as there are few who would be willing to pay this price. Buyers know they are never obliged to pay the full value they perceive (imagine what would someone be willing to pay for a bottle of water in the desert, if
he absolutely needs it), aware that competitors will always come up with a better offer. If we take into consideration the situations presented, waiting some time, or with a „little inconvenience“ buyers will have more and better choices (for example, in the latter case presented, assuming the risk of having a slightly bad image and with a little effort, customers will always have the option to purchase the product at a much lower price).

But, equally true is the fact that in situations in which the acquisition involves spending other people’s money (usually companies), direct buyers are not as motivated to search for the best offer as in situations referring to their own money.

Furthermore, if we consider a crisis, like the previous one and whose effects are still felt, the elements related to the value presented above acquire new meanings. Customers are better informed, negotiate tougher, show prudence, establish their priorities much better etc. Even if customers understand correctly the product value and in a normal context they would be willing to pay the asked price, in a context of crisis this economic sacrifice may be appreciated by some customers as too high and, therefore, they would abandon the product purchase, although the price is lower.

From the facts presented, it results that the concept of maximum price depends on the context, the situation, as well as on every customer. The diversity of clients require a segmentation of the market according to the preferences of specific groups of customers and, consequently, price differentiation for each segment and practicing different prices according to the context (Corbos et al., 2013). It may be addressed the following question: Why, during the recent economic and financial crisis in our country, prices of many products, not only that have not decreased, but have even increased? A short and cynical answer is because someone has to be stupid enough to sell at lower prices, if he buys at high prices. The market in our country is atypical and this situation represents one of the many paradoxes of prices (Deac and Vrîncuţ, 2013). Also, the concept of perceived value suggests that the price must be determined in a dynamic manner, it must vary over time and depends on the maximum price that each customer is willing to pay.

Considering the aforesaid, it results that the biggest challenge for the producer is finding and understanding that certain „something“ that is creating tangible value to different clients (which may be of economic and / or socio-psychological nature) and fixing the price in accordance with this value, thus being best exploited. Rather than producing items to satisfy customers, companies should provide tangible value, for which customers are willing to pay (Nagle and Hogan, 2008). Therefore, Mercedes is „built like no other car in the world“, BMW is „the car ideal for driving“, Rolls-Royce cars are „only for the wealthy“ etc. The price must match that value, facet often very difficult to
determine. For example, to calculate the cost of a coffee at a coffee shop at Dorobanti Square in Bucharest is easy enough, but to establish a value for consumer satisfaction generated by ambience, relaxation, conversation, status, image etc. is very difficult. These values vary from one consumer to another and from one situation to another.

Every year, at the beginning of the „Price Management” course we challenge master students to a discussion regarding the fair price of the book which, in large part, represents the course materials for the examination. Opinions are very diverse, starting at ridiculous prices of 3-5 lei, motivated by the fact that the master status does not allow them greater financial effort, and reaching inflated prices, without argument or some strange arguments. Finally, we reveal that this problem will be resumed at the last course, after they have mastered the theoretical aspects of scientific substantiation of prices.

Before an exam, we challenged the students to an open outcry auction sale of a single copy of the book noting that the one who purchases it will be able to consult the book at the exam (we mention that during the examination, the students are permitted to consult any sources of information they have, the only restriction is communication between them). The aim was that after the auction we can formulate the last exam subject.

The auction started with an initial offer of 3 lei, a “theoretical dispute” followed, related to the price, a price of 20 lei (the actual price of the book, considered a fair price) was reached and the auction was closed at the price of 210 lei after a fierce dispute between two students, one of the competitors withdrawing after having counted the cash in her wallet, and to the question whether she can pay by credit card, the answer was negative.

Finally the book was offered for free to the successful tender and the following examination topic was formulated: "As a sales management specialist, justify the increase of more than 10 times of the price of the book?" The answers were different from student to student, and those correctly explained are reproduced below, providing only the authors' initials (Deac et al., 2014):

- D. A. (the one who won the auction, but did not pass the exam), "the large number of customers; the product can be of vital help to pass the exam";

- R. R. F. (the one that lost the bid, but passed the examination): "the fact that it is the only book remaining to be sold; everything that is unique is more valuable and the book was “unique”; the book offered at the auction is essential for passing the examination, hence the desperation to offer the highest price, just to obtain it";

- S. M.: "maybe fear or madness created in the classroom (atmosphere) has pushed my colleagues to
reach such a price”;
- M. M.: “they were paying for the image in front of the teacher who would evaluate the papers, the value of this image exceeded more than 10 times the value of the book”;
- P. C. O.: “the need for this product was high, given that the exam would start in 20 minutes and all the students wanted to promote; the need to promote pushed the customer (student) to artificially increase the price for the moment; the possession of the book offered safety and comfort at the exam; the time and place chosen, the mood of the students and the way the negotiation was held were used in order to obtain a high price”.

If we analyse these responses, all contain a fair argumentation, confirming that the notion of maximal price depends both on objective factors, but also on subjective ones, on the context, on the situation, but also on the psychological traits of each individual. Companies closely monitor customer expectations, the performances that they expect from the company, the satisfaction that they produce to customers, the response of competitors. The instruments used to track the customer satisfaction measurement are extremely diverse (suggestion boxes, telephone lines, questionnaires, social networking websites etc.).

*This aspect of detecting and understanding of the certain „something” that is creating tangible value for individual customers is absolutely necessary, but not sufficient for success, subsequent communication of this value is essential.*

In situations where products reach the final buyer through large retailers, as with most consumer products, the approach of prices substantiating is more difficult and complex. The value that they must take into account and communicate it to the final consumer is more than the simple value of the product. The principles of substantiating prices in terms of value remain the same, but the sources of value are more diversified and with different impacts. In reality, a large retailer that buys products from a manufacturer is not interested in the attributes and benefits of the product that determine the perceived value for the final customer, but rather whether the sale of the brand in question will directly help him to obtain more profit or to reduce sale costs (Dupuis and Colla 1997).

Furthermore, for the final customer who purchases the product from a great retailer, the perceived value can be increased merely because he has the ability to purchase all the necessary items in one place (few are those who, when ticking a shopping list in a Hypermarket, think that a product is cheaper in the store X).
4. VALUE COMMUNICATION

Value communication, which includes advertising, sales on trial periods, warranties, demonstrations, tastings, the possibility of returning the product and other very shrewd methods that support the seller’s promise related to value, **increases the availability of less informed and experienced customers to pay the same level as the “advised” ones.** There are many situations in which there is the possibility that customers may not understand the value of a product because they may not have heard about new attributes, they do not know how to use them (many regular customers consider the sophisticated features of the new products as difficult to use) or could not understand how a particular attribute can satisfy an unfulfilled need.

It is the responsibility of the seller to solve these problems through effective communication of the value and hence the price. In situations where there is a significant difference between commercial brands or the product is expensive, rarely bought and reflects a high status and prestige of the person who purchases it, we are dealing with a complex buying behaviour. Typically, the client does not know much about the respective category of items, for example, the feature “Intel Core I7” does not say anything to an uninformed buyer. Value communication is essential in these situations, the buyer will go through a learning process, will form his first opinions and attitudes towards the product following that process, after which he will make an informed choice, the price being a less important element.

In situations where the buyer is less involved in the purchase of a product, it is bought repetitively and the differences between brands are insignificant, we can talk about the behaviour of purchase. The buyer chooses a certain brand due to his habit and less because of fidelity to the brand. Buyers are less involved as the product has a lower cost, purchase it more often and do not analyse the purchase decision too much. It is possible that after buying the product, buyers do not evaluate their choice. Considering these aspects, **for products that require little involvement from consumers, factors such as promotion and price are used to stimulate consumer choice.**

The effect of communicating the value is obvious in situations that create real value for potential customers. In the lack of communicating the value, this would not show (although it is evident) and the act of sale would not complete. For example, if the client is properly informed about the advantages of rapid home delivery of the product, he will realize the benefits, aspect that implies a higher price of the product. But to achieve this, the client must be motivated to listen to that message. Typically, value communication achieves its objective in situations where price is an important variable in the actual buying decision (the question is how the purchaser can be persuaded that the price is justified).
Effective value communication involves, first of all, the correct understanding of the factors determining the value and hence the consumer perceptions that must be influenced. There are two factors that determine how the seller should try to influence the clients' perceptions about the value and price: the relative cost of research conducted by its target customer for informing regarding the differentiating attributes of its offer and the type of benefits sought (economic or socio-psychological) (Nagle and Hogan, 2008).

In situations where the sought benefits are mainly of economic nature and consumers are relatively homogeneous, communicating the value can be standardized and provided through media advertising and collateral commercial materials. But when the benefits are more diversified and factors that determine the value vary greatly among customers, it requires a direct communication and companies will have to instruct their sales representatives in order for the latter to know the value models that can be customized. It is important that for each target segment aimed it is identified the most important benefit that can be reliably associated with the product. For example, Michelin, whose promoting campaigned was based on the idea of high performance (the segment targeted by the company being men) for a long period of time, has revised this strategy, given the increasing role of the couple in decision making, associating it with a new benefit, namely family's safety, given by the slogan „Because so much is riding on your tires.” This repositioning has proved to be one of the most successful and has enabled premium pricing (Nagle and Hogan, 2008).

Aspects of communicating the value complicate in the situations in which the benefits that determine the paying intention of customers are mainly psychological, and the customers are very difficult to perceive differences between brands. In these cases, customers tend to rely on direct knowledge, regardless of how low it is (testing is the most effective way to influence the perception of value; for example, even the most famous celebrity cannot convince someone of the value of a perfume in a better way than by testing the fragrance), on previous experience or certification coming from people with whom they can identify or who are considered an authority in the field (for example, the recourse to famous athletes to communicate the value of sports goods in commercials).

Currently, consumers can send online feedback regarding the products they purchase and the reviews illustrate, to a great proportion, the customer perceived value of the products (Dobrin and Girneata, 2015). In addition, companies benefit from the development of social networks in order to promote or launch products without any substantial cost. They offer products for testing to a small number of carefully selected individuals (usually those possessing review blogs or those who are active on social networks) who use the products and then communicate online their opinion about the tested characteristics. For example, when Philips launched the multifunctional cooking appliance Philips
Multicooker, they offered it for testing for a short period to people who own culinary websites or blogs. These posted pictures of various recipes obtained after utilizing the appliance and information on how it facilitates cooking. Through this measure, Philips aimed to communicate the product value to its potential clients and to inform them about the available functions and features.

Many companies focus on communicating the value to certain reference groups with demonstrations at home or at work. This method is used for a growing range of products such as cosmetics, home appliances etc. (such an approach was followed by the Zepter company when launching on the Romanian market in the 90s), relying on the fact that people influence each other in the buying process. Typically, about 60% of participants buy something, due to the influence of the host and the other participants in the meeting presentation.

5. CONCLUSIONS

The biggest challenge for the producer and hence for succeeding in sales management is finding and understanding that “something” that is creating tangible value for different customers and fixing the price in accordance with this value. This is not an easy challenge given the multitude of factors and aspects that determine and influence it. The only certainty that we can emphasize is that in the „battle of competitors” for „customers money” for the purpose of maximizing profits, will overcome those companies that will best manage all the practical aspects of the concept of „customer perceived value” regarding their products.

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CUSTOMER PERCEIVED VALUE – AN ESSENTIAL ELEMENT IN SALES MANAGEMENT

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