



Product attributes and premium price strategy: A study of tea consumers in middle and high-end market

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Abstract

Product attributes have become significant factors that stimulate the consumers towards the product. It implies what kind of benefits the particular product will derive to customers. This study investigates the extent to which consumer willingness to paying premium price which is influenced by intrinsic cues and extrinsic cues of tea product attributes and how consumers' evaluation criteria differed in terms of the purchase situation. Consumers can make known their favorable product attributes by means of consumer behaviour or the value they are willing to spend for the particular product. A sample of two hundred middle and high income categories of consumers was selected and structured questionnaire was adopted for primary data collection. Descriptive statistics, Correlation and Regression analysis were used. The results reveal the significance of the ingredients and brand name of the Tea products as premium price attributes. Vital managerial implications are suggested for both tea producers and marketers. Tea producers should prioritize on ingredients and taste and marketers should focus more on branding, value proposition and image building. Ceylon Tea has its own brand image as one of the best brands; the premium price strategy could be implemented as collaboration with all stakeholders in the international marketing for a win-win situation.

Keywords: Consumer behavior, international marketing, premium price, product attributes, tea.

1. Introduction

Consumer buying behavior is a complex phenomenon which cannot be directly defined at a glance without doing a proper study as it is affected from various factors such consumer perception, product attributes, price, income level and many other factors. Furthermore the consumer buying behavior can be varying according to their income level and lead marketers to use various pricing strategies such as premium pricing, market skimming pricing, market penetration pricing, product line pricing, by product pricing, etc. To make buying decisions various types of stimuli are considered as consumers' willingness to pay a higher price (premium price) mainly depends on several factors such

as product attributes, instrumental and terminal personal values and socio-demographic factors. Further product attributes directly influence to a consumer buying behaviour especially at a premium price (Pelsmacker, Driesen & Rayp, 2005).

Product attributes can be used as a great opportunity to specialized firm's product from their competitors and play a major role in marketing, for marketers as well as for consumers since they use those attributes as the basis for evaluating a product. Therefore product attributes which are given higher value by the consumers in evaluating a product should be the main factors of designing the product.

Product attributes can be defined as features, elements or characteristics which are possessed by an item. Those product attributes can be divided in to two categories as intrinsic cues (Part of the physical product) and extrinsic cues (Not a part of a physical product). The term premium pricing means setting a higher price than the normal market price of the particular product with the expectation of customers who want to have higher value will purchase that product. Premium products can be viewed as different ways and premium prices give different meanings to different consumers. Consumers used to identify products with premium prices as high quality products which have selective distribution through high quality distribution channels. Besides, consumers prefer to pay higher price for higher taste as well as for higher benefits. This paper identifies the most influential factors of tea product attributes that determine consumers' willingness to pay premium price as well as relationship between and consumer buying behavior with special reference to middle and high income level categories of consumers.

Marketers stimulate the customers by introducing attractive product with high performances as the product attributes play a major role to develop customer willingness. In present context, some Sri Lankan tea producing organizations are targeting niche markets with developed product attributes at a premium price to have high benefit with less number of productions. Literature suggests two arguments as the intrinsic cues of product attributes are mostly influential in consumers' purchase decision rather than extrinsic cues and contradictory findings as extrinsic cues are mostly influential in consumers' purchase decision. Therefore there is a need of identifying what product attributes of tea will mostly influence the consumers to purchase the products at a premium price as well as the effects of product attributes on consumer buying behaviour. Hence the objectives of the study are;

- To find out the most influential product attributes that determine middle and high income level consumers' purchase decision at a premium price of tea
- To identify how importance of intrinsic and extrinsic cues of product attributes are varying based on purchase situation
- To find out the relationship between consumers' willingness to pay a premium price and intrinsic and extrinsic product attributes

2. Review of literature

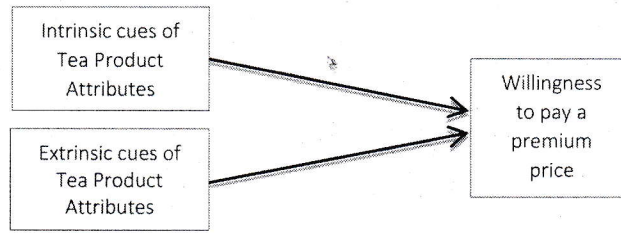
Consumers' willingness to make purchase decisions among different attributes of products has increased as they change purchase decisions based on various factors. Most consumers consider intrinsic and extrinsic cues of product in their purchase decisions (Forney et al., 1999; Liefeld et al., 2000). Arrival and growth of the premium products has been identified as an important factor as well as it assists to fulfill a more complex set of needs in consumers than do lower priced products (Immonen, 2010). Food choice model (Koster, 2009) identified influential factors of food choice consist with experienced intrinsic product characteristics (appearance, taste, and texture), expected extrinsic

product characteristics (health claims, package and information), socio-cultural factors (cultural and economic situations, trust, norms, and attitudes), situational factors (time, physical surroundings, habituation), psychological factors (memory, learning, motivation, cognition, emotion) and biological factors (age, gender, physiology, genetic factors).

Intrinsic cues of product attributes refer as product related attributes: ingredients, flavor and aroma that cannot be manipulated without also altering the physical properties of the product (Richarsson et al., 1994). Further the consumers believe more on intrinsic cues such as actual product ingredients, taste, texture or aroma than extrinsic cues: advertising, labeling or packaging in purchasing food products. Scholars argue the consumers have higher reliance on intrinsic cues rather than extrinsic cues in pre-purchase situations (Zeithaml et al., 1988) and intrinsic cues of products as a major evaluative criterion in purchasing a product (Srinivasan & Jain, 2004). Adding more tasteful ingredients to the product rather than selling core product, improves the perceived value of the consumers. Further adding ingredients to core products has a positive impact on price (Santos & Ribeiro, 2005). Flavor is not considered as a much important factor compare to other intrinsic and extrinsic cues (Pelsmacker et al., 2005) but it has a positive effect on price (Santos & Ribeiro., 2005) because willingness of consumers to pay more for better taste and better nutritional value .

Extrinsic cues of product attributes refer as brand name, package and advertising, which are not parts of the physical product (Richarsson et al., 1994). Higher quality products, fancy packaging, exclusive store locations, higher retail margins, expensive promotions, advertising campaigns and brand names, all these extrinsic cues are contributing to the higher price or premium price of goods and when there is not a possibility to examine, see, touch, smell or taste the actual product, consumers have to rely on extrinsic cues to evaluate the product's attributes (Immonen, 2010). Extrinsic cues can be more easily recognized, integrated and interpreted than intrinsic cues (Immonen, 2010) and if the consumer has very little experience, interest to evaluate intrinsic attributes or if the time is insufficient, in that kind of purchase situation also extrinsic factors play a major role in evaluating a product (Zeithaml, 1988). Extrinsic product cues such as brand name are more effective than intrinsic product cues in consumer buying behavior (Krutulyte, Coasta & Grunert, 2009). Consumers who make most of their purchase decisions of products depending more on the non-physical details are influenced by brand name in their purchase decisions (Varela, Ares, Gimenez & Gambaro, 2010). Brand name has the highest relative importance among other intrinsic and extrinsic attributes in evaluating a product (Pelsmacker et al., 2005). Consumers used to perceive premium brands as products of excellent quality, high price and selective distribution through the highest quality channels and Premium price can be considered as the most useful measure of brand equity (Blackston, 1995). Some consumers used to make purchase decision based on their preference of the package (Silayoi & Speece, 2004) and packaging of a product is able to grab the consumers' attention especially in grocery store environment (Silayoi & Speece, 2004). Advertising is one of the most important extrinsic factors among all other marketing weapons which impact on consumers' buying behaviour.

Figure 1 Conceptual framework



Source: Adopted from Immonen (2010) and Pelsmacker et al (2005)

Intrinsic cues: product related attributes: ingredients, taste and aroma that cannot be manipulated without altering the physical properties of the product (Richarsson et al., 1994) and *Extrinsic cues:* product related attributes: price, brand name and the package, which are not part of the physical product (Richarsson et al., 1994).

Hypotheses

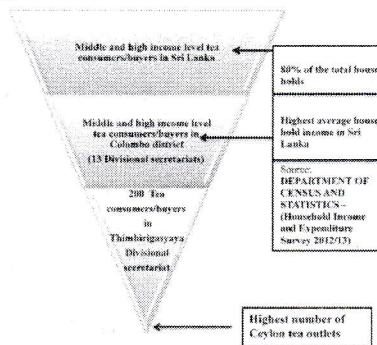
- H₁: There is a relationship between intrinsic cues of tea product attributes and consumers' willingness to pay a premium price.
- H₂: There is a relationship between extrinsic cues of tea product attributes and consumers' willingness to pay a premium price.

3. Methods and materials

Population consists of all middle and high income level tea consumers/buyers in Sri Lanka. Colombo District which consists with the highest income level category (Department of Census and Statistics, 2012/13) was selected as the study area. According to the household income and expenditure survey in Sri Lanka (2012/13) middle and high income categories have been identified as follows: monthly household income equal or more than Rs 32,595 and less than Rs 121,368 is considered as Middle Income Level and monthly household income equal or higher than Rs 121,368 is considered as High Income Level.

Sample: Target population consists with individuals who are using both super markets and tea shops to buy tea in Colombo district. Among 13 divisional secretariats in Colombo, Thimbirigasyaya Divisional Secretariat which consists with the highest number of super markets and tea shops is selected for the survey as shown in Figure 2.

Figure 2: Sampling procedure



A structured questionnaire with five point Likert scale questions was used to collect primary data and secondary data were gathered from the reports of Department of Census and Statistic, Economic and Social Statistic of Sri Lanka 2014. Conbrach's alpha reliability test was used to measure internal consistency. Descriptive statistics, correlation and regression analysis were used in data analysis.

4. Results and discussion

Among 200 customers, 43 percent of customers are included in middle income category and 57 percent of customers belong to high income category. Further tea packet buyers used to buy tea as 60 percent once per week and 40 percent once per month and made up tea buyers used to buy tea as 30 percent once per day 28 percent more than day per week, 26 percent once per week and 16 percent once per month. Based on the purchase situation (whether buying made up tea or buying tea packets) priority given to the each attributes is vary. Majority of made up tea buying consumers have given their first priority to ingredients of tea products and accordingly second priority to brand name, third priority to aroma, then consecutively to packaging and advertising. Most of the tea packet buyers have given their first priority to brand name of tea when they evaluate tea product attributes. Then consecutively tea product's ingredients, taste, packaging, aroma and advertising have been given next priorities. Besides customers have given their most favorable tea brand based on the above intrinsic cues of tea product attributes and extrinsic cues of tea product attributes.

Results in Table 1 state the mean values of ingredients, taste and brand name and they are varying between 3.64 and 3.56 and in overall. The majority of respondents have concerned ingredients, taste and brand name to purchase tea at a premium price. Standard deviations depicts that dispersions of brand name, packaging and advertising product cues are higher than ingredients, taste and aroma.

Table 1
The distribution of customers' opinions about effect of product cues

Item	Mean	Standard Deviation (SD)
Ingredients	3.64	.866
Taste	3.56	.870
Aroma	3.38	.905
Brand name	3.58	1.126
Packaging	3.18	1.028
Advertising	3.00	1.195
Total Intrinsic	3.52	.814
Total Extrinsic	3.25	.968

Pearson correlation analysis is used to identify the strength of the relationship between willingness to pay a premium price and intrinsic cues and extrinsic cues of tea product attributes. Each and every interpretation of correlation coefficient exhibits the strength of the relationship between two variables and the hypothesis are stated in order to identify whether the relationship is significant or not. With refer to the correlation of whole intrinsic cues of tea product attributes and whole extrinsic cues of tea product attributes, both are having positive relationship with consumer willingness to pay premium price

(see Table 2). Both intrinsic cues and extrinsic cues of tea product attributes have significant and positive correlation with customer willingness to purchase at a premium price.

Table 2
Results of correlation analysis

Tea attribute	Willingness to pay premium price	
	r	p
Ingredients	.140*	.048
Taste	.206**	.003
Aroma	.126	.075
Whole Intrinsic cues	.170*	.016
Brand name	.534**	.000
Packaging	.382**	.000
Advertising	.330**	.000
Whole extrinsic cues	.478**	.000

* Correlation is significant at 0.05, ** Correlation is significant at 0.01

Multiple regression analysis is used to examine the dependence of consumers' willingness to purchase tea at a premium price on intrinsic cues and extrinsic cues of tea product

Table 3
Results of the regression analysis

Attributes	Unstandardized Coefficients		t	Sig
	B	SE		
(Constant)	2.52	0.22	11.34	0.00
Ingredients	0.14	0.05	2.62	0.01
Taste	0.16	0.09	1.88	0.06
Aroma	-0.11	0.08	-1.38	0.16
Brand name	0.31	0.05	5.66	0.00
Packaging	0.53	0.05	0.94	0.34
Advertising	-0.02	0.52	-0.50	0.61
<i>Adj. R² = 0.228</i>		<i>F = 14.410</i>	<i>Sig F = 0.000</i>	

attributes. The results are shown in Table 3.

The regression result confirm that estimated model of regression to predict the customers' willingness to purchase at a premium price by products intrinsic and extrinsic cues is significant ($Adj. R^2 = 0.28$) and fit to the data ($F = 14.41, p < 0.01$). With regard tea product ingredients, the Beta coefficient of 0.14 indicates that product ingredients have a positive effect on customer willingness to purchase at a premium price. Since p-value of 0.01 is less than 0.05 level of significant, tea product ingredients significantly impact on consumer willingness to purchase at a premium price. Further regression coefficient of

0.31 for brand name which was significant at 0.01 indicates that brand name of tea has a positive and significant effect on consumers' willingness to purchase at a premium price. This attribute is the most influential tea product attribute on consumers' willingness to pay a premium price. However, regression results suggest that taste, aroma, packaging and advertising of tea have no significant influence on consumers' willingness to purchase at a premium price.

5. Conclusion

The major objective of this study was to examine the effect of intrinsic and extrinsic cues of tea product attributes on customer willingness to pay a premium price. The result reveals that consumers have highly considered the intrinsic tea product attributes at the made-up tea purchase situation and the extrinsic tea product attributes at the tea packet purchase situation. Nevertheless, consumers have given significant priority to both ingredients and brand name of the tea products. Result further suggests that intrinsic cues of tea product attributes such as taste and aroma as well as extrinsic cues of tea product attributes such as packaging and advertising have not significant influence on consumers' willingness to purchase at a premium price.

The study found that brand name of tea product is the most influential factor to the consumers' willingness to pay a high price and most of the consumers believe that product with good brand name always derives high quality features and implies that consumers highly consider the tea brand before they purchase. Besides, it reveals that tea sellers advertising effort is not effective to stimulate the customers to purchase at a premium price.

This study provides much important implications to both tea producers and tea marketers. Tea producers should concern more about the physical property of the product (intrinsic cues) and tea sellers should concern about the extrinsic cues in using a premium price strategy. More especially, tea producers require to pay high attention to ingredient and taste as consumers (specially made up tea buyers) are highly concern on those factors to pay a premium price. On the other hand, tea seller should verify whether the brand name is well recognized, before setting a premium price as the impact of the brand name is higher than other independent attributes of tea towards consumer willingness to paying high price. Finally since Ceylon Tea has its own brand image as one of the best brands, the premium price strategy could be implemented as collaboration with all stakeholders in the international market.

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