Perceived Value and the Bottom Line

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PERCEIVED VALUE AND THE BOTTOM LINE

What retailer wouldn't love to accept more money for the same product?

With the right expertise, such a goal is attainable. Retail consumers rarely have a full understanding of the costs of producing the products they purchase. Cost simply isn't what they use in determining the value of an item or deciding what they are willing to pay. People aren't excitedly waiting in line for the latest iPhone model with a list of component parts, assembly costs, marketing or shipping totals.

Rather, the consumer is focused on the **perceived value of the product.**

Perceived value is the value that lies in the mind, heart and eye of the beholder.

The customer may have an emotional attachment to a particular product or be spurred into making a purchase due to FoMO - the fear of missing out. Such fear is induced by "Only 2 left in stock" messages on e-commerce websites or limited time only sales that display a digital clock counting down. It's the psychology working behind the scenes of these sales strategies that get consumers scrambling for their credit cards, worried that a browser timeout message might leave them behind.

Four Elements For Building Perceived Value

Retail business leaders that grasp the hunger and unpredictability of consumers and seek in-depth knowledge of value perception will be positioning themselves for success. There are four elements making retail successful in today's world--energy, engagement, urgency and scarcity.

Energy

In a speech at The Future of Retail conference hosted by retail consulting firm PSFK, Ron Faris described how there is an X-factor at play in consumer enthusiasm behind a brand. The creation of such energy around a retail brand or product requires reaching beyond basic utility. Creative executives need to create a storyline that excites the consumer and drives them to engage with others.

Engagement

What kind of engagement have Kestenbaum and Faris been talking about? Social media, of course. Social media provides retailers great opportunities to inspire consumers and then to like and share brand content. These consumers can create enthusiasm among friends and family as well as additional benefits for the business. The measurable data created in the process of social media engagement is extremely useful for refining and creating new brand strategies.

Ahmed Rageh Ismail explores consumer associations with social media in his 2017 study, “The influence of perceived social media marketing activities on brand loyalty: The mediation effect of brand and value consciousness.” According to Ismail’s research, communication between a consumer and a company - as well as the company sharing information with followers - supports brand consciousness and brand loyalty. With so many consumers coming from a value-driven perspective, business executives would be wise to take note.

Urgency and Scarcity

The remaining elements that fuel Faris’ recipe for success are urgency and scarcity - the drivers of FoMO. A customer that isn’t aware of opportunity cost isn’t going to feel the need to make a purchase. Whether customers are missing out on money, productivity or other resources, it is the job of the retail brand leader to communicate the impact of the loss and spur consumers into action. As David Brock wrote in his 2013 article “Are you creating a sense of urgency with your customers?,” “Deals die when there is no sense of urgency or motivation to change.” Consumers live busy lives and aren’t going to make your brand a priority unless you are putting in the work to make them realize that they need to. Pick up the phone or hit the keyboard and give them an education.

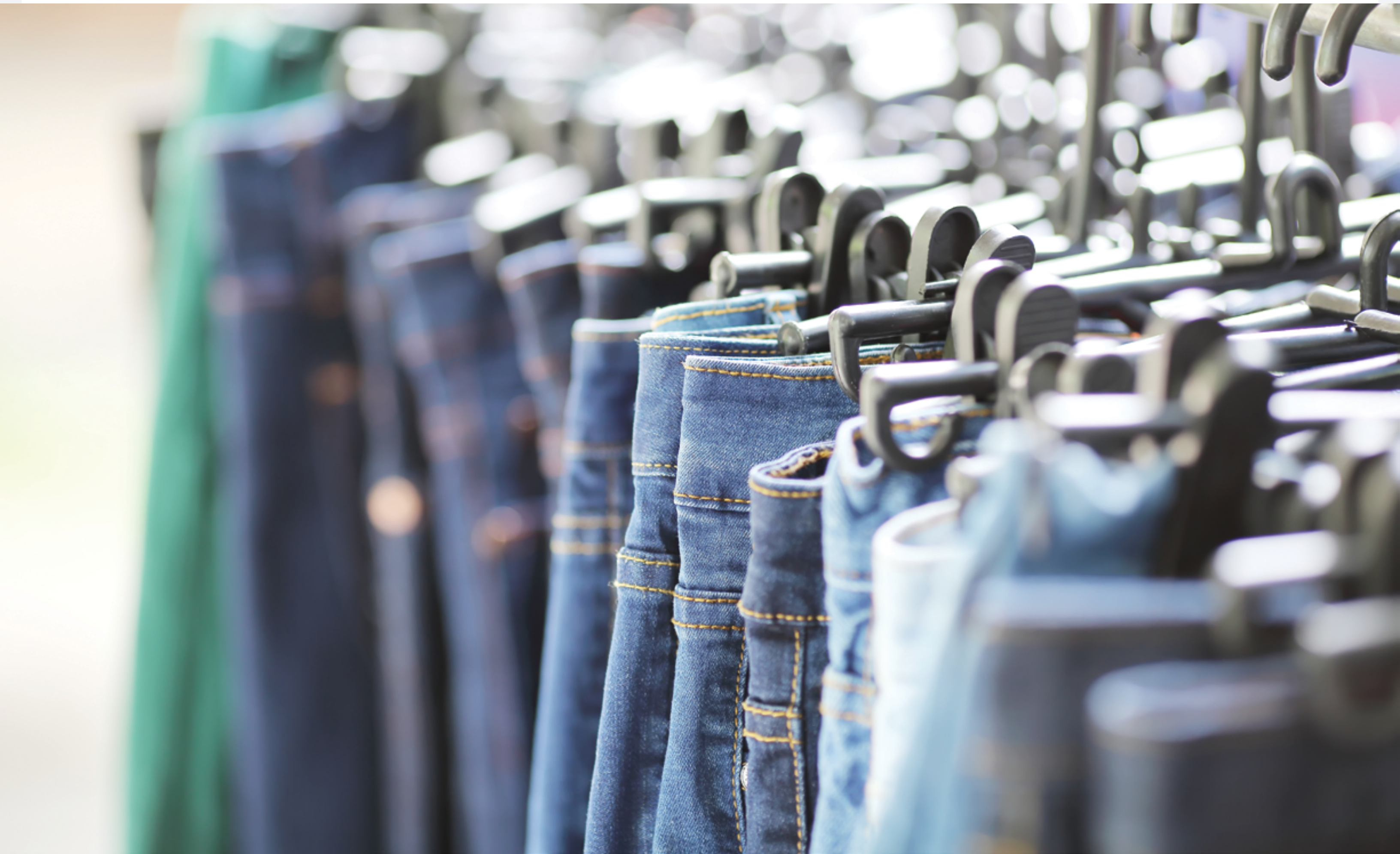
ENDORSEMENTS ALTER CONSUMER PERCEPTIONS

Retail executives can also give the perceived value of their products a boost by making good endorsement decisions. In the 2012 study "The Economic Value of Celebrity Endorsements," researchers Anita Elberse and Jergen Verleun found that entering into an endorsement deal with a top-ranked athlete versus an athlete on the low end of the top 10 is $60,000 in weekly sales and 0.08% in stock returns. Their findings also show that consumers have a higher perceived value of products endorsed by celebrities they view as winners. After all, who doesn't like to be associated with winners?

The impact that a renowned athlete can have on the perceived value of a brand has played out in China with basketball legend Michael Jordan butting heads with Qiaodan Sports Co. Ltd. Jordan has been battling Qiaodan for trademarking his name in Chinese characters and using other common symbols that he held would falsely lead Chinese consumers to believe he was associated with the company - such as a logo similar to Nike's Air Jordan "Jumpman" logo and the number 23.

The Chinese supreme court ruled that Qiaodan Sports can no longer use the equivalent of Jordan's name in Chinese characters though the company retains the rights to using Qiaodan spelled out phonetically in English, as it's written here. Why would Qiaodan Sports tangle with Michael Jordan in court for years over the use of his name in Chinese characters? It's because of the benefits of perceived value that have come along with riding the stars' coattails.

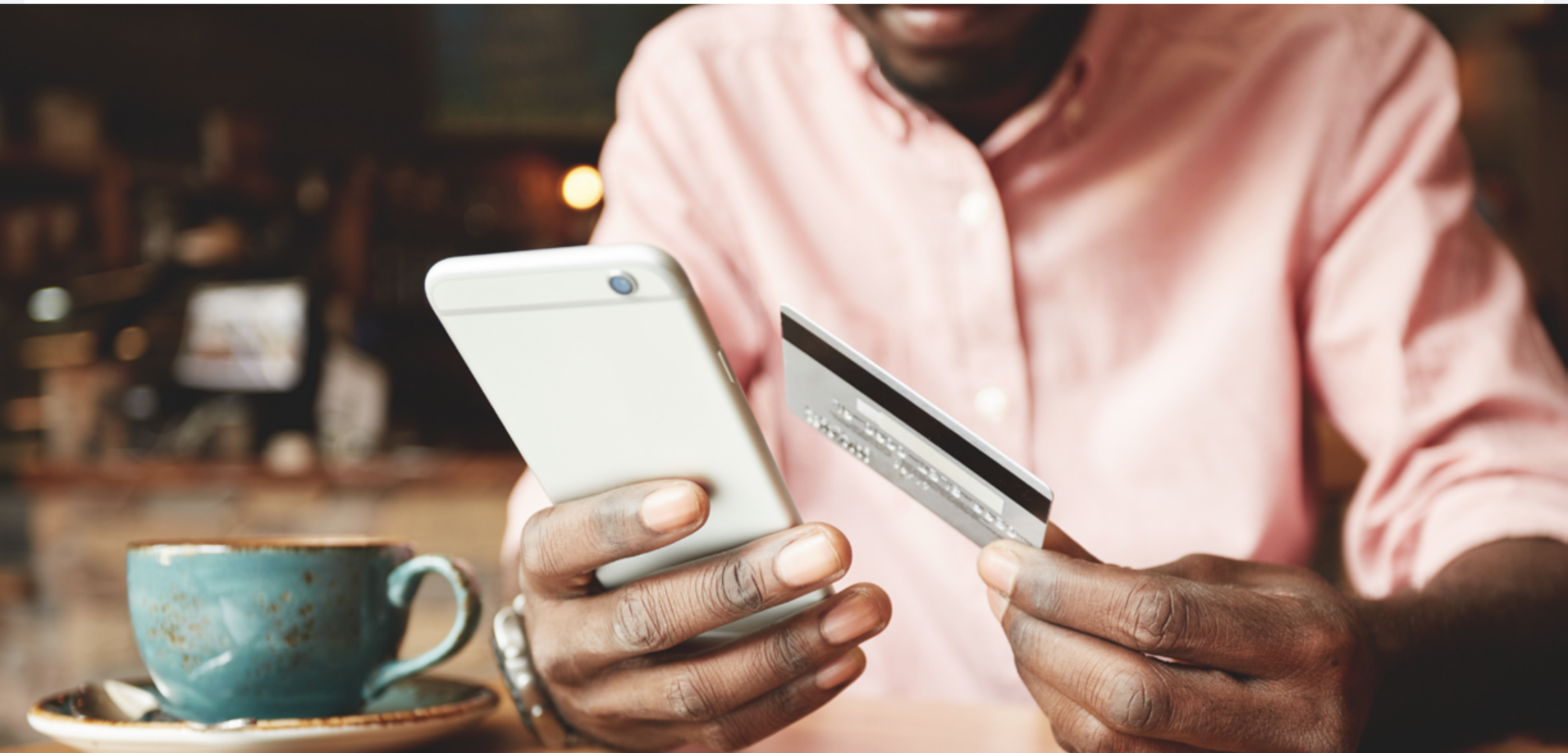
According to Rose Bentley of Chambers Cox PR, our culture is more focused on celebrity leadership than ever before and this has big implications for the retail sector. In regards to clothing, Bentley explains that instead of looking at what will suit them best, consumers are looking to see if they can pull off the look a celebrity is sporting. For example, a fashion consumer might shop with Jennifer Aniston's latest look weighing heavily on her mind.



How low can you go?

Brand leaders can find important lessons to be learned in examining the strategy of Abercrombie and Fitch during the Great Recession of 2007-2012. Abercrombie and Fitch held their prices steady while many competitors cut prices in order to maintain volume and market share. The company was criticized for this move, but it would pay off in the long-term due to retail consumers' perceived value of its products. After the recession, competitors found it difficult to raise their prices as consumers had become used to the lower prices and now perceived the products' value at those lower costs. Abercrombie and Fitch was immune to this struggle as it had maintained prerecession prices and the concomitant perceived value.

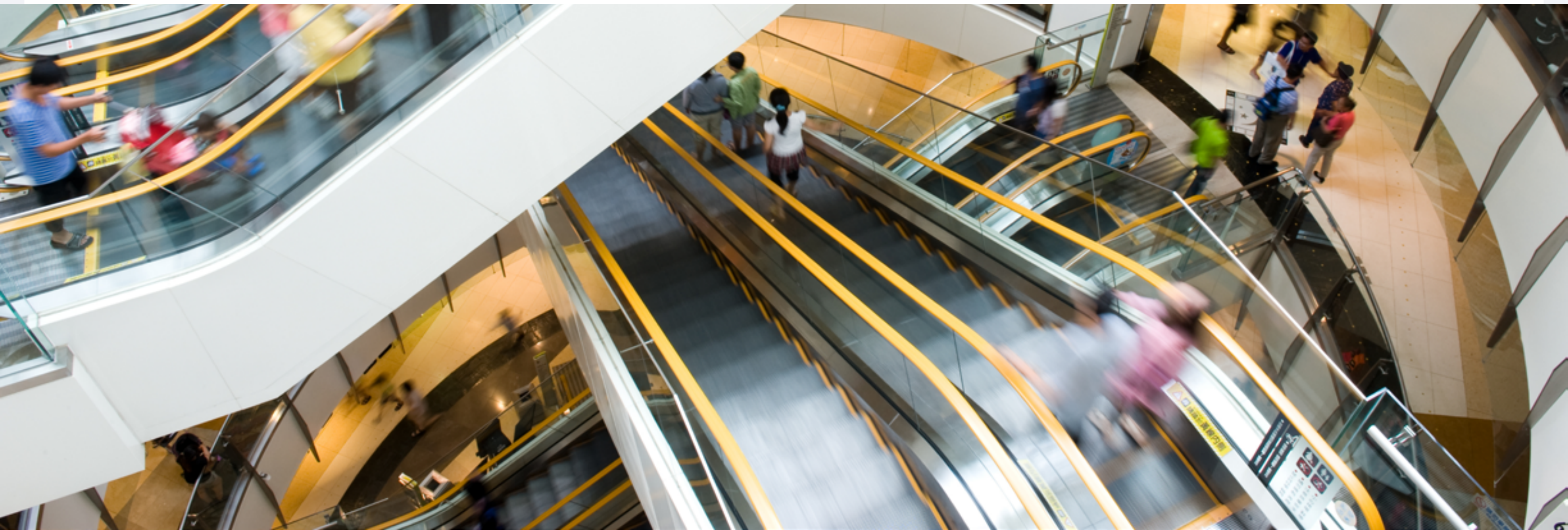
Staying the course can be a difficult proposition to manage. Companies such as Amazon carefully pick and choose which products to price most competitively while maintaining other products with a higher margin. However, in one study, Amazon prices were actually 27 percent higher than Jet.com. While Amazon might not be cheaper across the board, it is excellent at positioning itself to be perceived as cheaper.



Sorting through all the data and statistics necessary to be generous where customers are the most sensitive and make up the profits on other products behind the scenes is much easier for a business with the scale of Amazon. Achievement of scale to Amazon's extent also contributes to the perception of credibility and thus, greater value. Small-scale competitors will find manipulating consumer perceptions to be much more of a challenge.

If manipulation sounds like a strong way to describe attempts to alter consumer perceptions, consider the wine experiments conducted by Frederic Brochet at the University of Bordeaux in 2001. Out of 54 oenology students, none were able to distinguish white wine dyed red from the real thing. Brochet was also able to effectively evoke human snobbery by putting inexpensive wine into expensive bottles. This resulted in rave reviews of the complex and rounded wine in the high-end bottle while the same wine in a cheap bottle was reviewed as flat and weak.

With such striking research hitting the media, wine sales must be suffering, right? Well, don't put up the for-sale sign just yet - 5.78 million cases of wine shipped across the U.S. in 2017. The volume of U.S. domestic direct-to-consumer wine shipments also increased by 158 percent in 2016. All this hullabaloo about wine demonstrates that it is more important for wine business executives to understand their customers - and the way that they perceive value - than it is for them to understand the nature of wine itself.



Value-consciousness is trending.

Retail business owners will need to pay increasingly close attention to the value-conscious consumer. Traditional department stores like Sears and Macy's are closing stores and experiencing reductions in sales while off-brand stores like T.J. Maxx, Ross and Burlington have opened hundreds of stores in recent years. While top-line growth at Burlington was 9 percent in fiscal 2016, this was sharply contrasted by the performance of many department stores. Macy's, for example, saw a 4.8 percent sales decline. The ability to manage excess inventory and deliver designer brand products to consumers at the appropriate price will be an important aspect for successful retailers at the forefront of the industry.

JPMorgan predicts off-price retailers TJX, Burlington and Ross will see incremental sales growth of up to $19 billion by 2021. Retail executives can also take solace in knowing that this is one area where they won't have to face off with juggernaut Amazon for the time being. With solid knowledge of perceived value, attractive growth expectations and a little elbow room with the most intimidating retail competitors, off-price retailers should be well-poised to seize opportunities in the expanding market.

For a lesson in successfully appealing to value-conscious consumers, retailers can look to the example of Garnier - the second largest brand in the L'Oréal group of cosmetic companies. Garnier successfully rebranded itself as a cleaner, greener company, and the campaign was embraced by consumers. Consumers saw value in the brand's efforts to eliminate harmful chemicals from its products and introduce biodegradable containers. Value-conscious consumers have attuned to sustainable brands, and Garnier's campaign won them over. The brand now stands at the forefront of the industry with a $4.81 billion valuation.

EMBRACE THE MYSTERY

Consumers may not understand all of the details that comprise their perceived value of a product or service and that's OK. As advertising guru Rory Sutherland put it in his TEDxAthens talk:

All of you will have seen this phenomenon if you have your car washed or valeted. When you drive away, your car feels as if it drives better.

And the reason for this, unless my car valet mysteriously is changing the oil and performing work which I'm not paying him for and I'm unaware of, is because perception is, in any case, leaky.

Leaky perception is an open door for retail businesses to paint themselves in a positive light for the value-conscious consumer. Social media, inventory management, and emerging technologies will be essential tools accompanying executives through the journey to increased revenues. When it comes time to celebrate reaching perceived value goals and the related profits, smart business owners might consider leaving that overpriced bottle of wine on the shelf.

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