The Determinants of Consumers’ Willingness to Pay Price Premiums for Branded Sporting Events

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Introduction
What drives Price Premium (e.g., “the amount a customer will pay for a brand in comparison with another brand offering similar benefits,” Aaker, 1996, p. 106)? Are consumers willing to pay more for branded products than for generic products? If so, why? What motivates them? Understanding the factors that influence Price Premiums should help managers establish strong brand values. Some motives that consumers perceive as related to paying a Price Premium become the basis for marketers to influence pricing strategies, the most sensitive element in the marketing mix. Also, segmenting, targeting, and focusing on specifically identified factors, all of which influence decisions, affect the overall brand value. Such information is theoretically and practically valuable in building strong brand equity for sport brands. Thus, the researchers conducted an empirical study on the determinants of consumers’ willingness to pay Price Premiums.

Theoretical Background and Research Hypotheses
Prior researchers verified a consumer’s determination of Price Premiums for physical goods (Ailawadi et al., 2003; Keller, 2008; Park & Srinivasan, 1994). One determinant of Price Premium is perceived quality (Bellizi et al., 1981; Cunningham et al., 1982; Netemeyer et al., 2004; Richardson et al., 1994). Consumers who perceive quality differences between branded and equivalent unbranded products are more likely to pay a premium. Consumers are also likely to pay a Price Premium if they have favorable associations, imagery, or brand familiarity that go beyond quality perceptions (Mieres et al., 2006; Sethuraman, 2000; Sethuraman & Cole, 1999). If consumers perceive any risks (e.g., temporal, financial, performance, social, physical, etc.) involved in their purchase and usage, they will pay extra money to contradict their concerns (Dick et al., 1995; Dunn et al., 1986). Some demographic variables (e.g., annual income, gender, education level) also influence consumers’ willingness to pay premiums (Sethuraman & Cole, 1999). The researchers classified the factors into (1) Quality-related, (2) Brand-related, (3) Risk-related, and (4) Demographic variables that influence customers to pay a higher Price Premium for branded products. Under four categories, twelve significant factors (i.e., (1) Perceived Quality, (2) Price-quality Inference, (3) Brand Familiarity, (4) Brand Uniqueness, (5) Performance Risk, (6) Financial Risk, (7) Gender, (8) Age, (9) Ethnicity, (10) Annual household income, (11) Education, and (12) household size) were identified and re-classified in the current study. The primary purpose of the current study is to assess the consumer’s determination of Price Premium, which forms the research hypotheses:

[H1] Quality-related variables (a. Perceived Quality; b. Price-quality Inference) will have a positive effect on willingness to pay a Price Premium.
[H2] Brand-related variables (a. Brand Familiarity; b. Brand Uniqueness) will have a positive effect on willingness to pay a Price Premium.
[H3] Risk-related variables (a. Performance Risk; b. Financial Risk) will have a negative effect on willingness to pay a Price Premium.
[H4] Demographic information (a. Gender; b. Age; c. Ethnicity; d. Annual household income; e. Education; f. Household size) will have an effect on willingness to pay a Price Premium.

Method
In the study, the researchers selected a specific case of a participant sport product brand, the IRONMAN triathlon event, because its participants and market have dramatically grown since 2005 (Coury, 2013) compared to other participant sports for a recent decade. The data (n=349; response rate: 91.6%) were collected in two IRONMAN triathlon events during the 2013-2014 season (85% Caucasian, 70% male, age 30–50, holding Bachelor’s degree or
higher, 56% income more than $100,000; at least 2 event experiences within the past twelve months). Measures of each factor were adopted and modified to measure twelve factors from the previous literature (see Dunn et al., 1986; Netemeyer et al., 2004; Sethuraman & Cole, 1999) using a 7-point Likert type scale. To examine the effect on Price Premium, IBM SPSS version 19 and Mplus 6 were used in a Structural Equation Modeling (SEM).

Prior to analyzing the determinants of price premium, data and assumptions were screened. Through the process of refinement procedures, two items in the Performance and Financial Risk determinant were eliminated due to relatively low ITT correlations and high Cronbach’s alpha if item deleted values. Also, Brand familiarity was excluded due to below the cut-off point of .5 AVE value (i.e., reliability). The results of CFA for the measurement model provided evidence of a good fit to the data ($\chi^2(210) = 566.98$ (p < .01); RMSEA = .06; CFI = .92; TLI = .91; SRMR = .06; p < .05). All factor loadings were significant (p < .05; ranged from .66 to .97). The Cronbach’s alpha (ranged from .76 to .94), composite reliability (ranged from .77 to .88), and average variance extracted (AVE; ranged from .62 to .79) indicated that convergent validity and reliability were established. All AVE values were greater than the squared correlations, providing evidence that each construct was distinctive from the others.

Subsequently, the hypothesized model was analyzed. The overall assessment of the structural model also indicated a good fit to the data [$\chi^2(210) = 234.05$ (p < .01), RMSEA = .08; CFI = .96; TLI = .94; SRMR = .04; p < .05]. The analysis of the path coefficients indicates that Brand Uniqueness ($\beta = .31$, p < .05) and Price-quality Inference ($\beta = .15$, p < .05) positively affect willingness to pay a Price Premium on sporting events whereas Performance Risk ($\beta = -.11$, p < .05) and Gender ($\beta = -.14$, p < .05) negatively affect willingness to pay a Price Premium.

Results
The results highlight (1) that, as the uniqueness of sporting event increases, sport consumers are willing to pay Price Premiums for the branded events, and (2) the degree to which they think that the quality is strongly associated with price increases, sport consumers are more likely to pay Premiums for the branded events. Also, (3) if the performance risk (i.e., the possibility that the product will not provide the desired benefits) increases, sport consumers are likely to pay a smaller Premium for the event. Among the demographic variables, Gender had significant influence on predicting payment of a Price Premium. (4) Gender negatively correlated with the Price Premiums indicating, on average, women in this study tend to pay lower Price Premiums than men (Jianakopolos et al., 1996; McCarthy & Turner, 1996).

Discussions and Implications
The results of this study provide clear theoretical understanding of consumers’ important drivers in predicting their willingness to pay a Price Premium for branded sporting events. This research is an initial attempt to determine the factors influencing consumers’ willingness to pay Price Premiums in the service context. Results from the service-oriented product provide an opportunity to examine if the factors influencing willingness to pay Price Premiums in goods-oriented products are applicable. The results provided preliminary evidence that Brand Uniqueness, Price-quality Inference, Performance Risk and Gender were the factors in sport consumers’ decision-making relative to branded sporting events. The results of the research provide managers useful and systematic information to build strong brand equity for sport brands. Testing more cases and providing additional evidence of validity will be the next steps to advancing our understanding of brand value and its determinants.