ilLUminate Blog Transcript: **Mary Beth Deily and Oliver Yao on Paying More to Signal Status**

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ANNOUNCER: 00:02	[music] This podcast is brought to you by ilLUminate, the Lehigh Business blog. To learn more, please visit us at business.lehigh.edu/news.
JACK CROFT: 00:13	Welcome. I'm Jack Croft, host of the ilLUminate podcast for Lehigh University's College of Business. Today is June 15, 2022, and our guests are Oliver Yao and Mary Beth Deily, two of the three co-authors of a study examining the willingness of consumers to pay for status signals in online luxury markets. Yue Yuan, a former Lehigh Business graduate student in economics, also was a co-author on the study. Dr. Yao is the Associate Dean for Graduate Programs and holds the George N. Beckwith ’32 Professorship in Decision and Technology Analytics, or DATA, in Lehigh's College of Business. His research interests are in the interdisciplinary fields of information systems and supply chain management. Thanks for being with us today, Oliver.
OLIVER YAO: 01:05	Hi, Jack. Thank you for having me.
CROFT: 01:08	And Dr. Deily is a professor of economics who does most of her work in the area of empirical industrial organization. It's good to have you with us today, Mary.
MARY BETH DEILY: 01:18	Thank you, I'm enjoying it.
CROFT: 01:21	The study you co-authored is Willingness to Pay for Status Signals in Online Luxury Markets, which was published in the journal Production and Operations Management recently. The idea of brand signaling is one that probably needs definition upfront. So if you could start with both in general terms and then specifically as it applies to the luxury goods market, what is brand signaling?
DEILY: 01:49	Well, we could think of brand signaling as using the brand of a product to send a signal to other consumers who may or may not have also purchased the product. In the case of luxury goods, the luxury brand sends a signal to other consumers specifically about the wealth and status of the owner of the product.
YAO: 02:12	Right. I would just want to add a little bit to what Mary Beth just said. Brand signaling, there are two words, right? There's a brand. There's a signaling. So we all understand what brands are and there's a luxury brands, there are normal brands, you have Mercedes brands, you have Honda, you have Toyota, different level of brands and recognition. And also there's a signaling. When a firm they're trying to market their products, they oftentimes have to think about, "How do I get our brand name out to our consumers, right?" I want to talk about the conventional wisdom over here. Then later on, when we'll talk about our results, we’re going to come back to revisit the conventional wisdom. The conventional wisdom is that firms, they always, almost always, want very clear signaling to the consumers. They want to make sure when a consumer they see a product, they know which brand it is, right. And they want consumer to be clear on the brand, as clear as possible. That's conventional wisdom. I just want to put it out here for whoever is listening to think about keeping mind for now.

CROFT: 03:37 That's great. Thank you. And I think that will help set the stage for some of what we'll be talking about. In your study, you mentioned previous research that delineated two groups of people interested in signaling status. One was called "patricians," or I think what a lot of us used to refer to as "old money," and the other was the "nouveau riche," those who have acquired their wealth in more recent times. So what are the differences in the ways those two groups tend to signal status?

DEILY: 04:11 We use the phrase nouveau riche to describe people that want to send an easily recognizable signal to the general public about their status, their presumably newly acquired status. Therefore, for this group, it's important that the goods be marked in such a way that the general public can recognize the item as produced by a well-known luxury goods producer. Now, the term patrician we used to describe people that belong to a group that is knowledgeable about the luxury products. And while they appreciate the quality of the luxury good, they're not that interested in signaling to the general public, but rather only to other people in their own group. And these are knowledgeable about the products and can recognize the product without it having a prominent brand logo. So while both groups may be willing to pay more for luxury items, the importance of the logo as a signal really is quite different. The nouveau riche group wants a prominent logo so that the signal sent by the handbag is clear to everybody, to the general public. The patrician group is not interested in sending a signal to the general public, but rather in sending a quieter signal that is most likely to be understood or received only by other members of their own group who are equally knowledgeable about the product.

YAO: 05:46 So going back to earlier, last question when I was talking about the conventional wisdom, firms, they always, almost always want some clear signals. However consumers, they may not think that way. So there's a mismatch of beliefs between firms and consumers. For consumers, different groups of consumers, some consumers they want other consumers to see that they're having this brand of product, right? But there may be another group of consumers they actually don't want to copy everybody, right? So they would rather have a pretty quiet signal in a product so that only knowledgeable consumers of their own, they can recognize each other. So there's a mismatch believes between firms and consumers. That makes our study really, really interesting.

CROFT: 06:46 Looking at some of the details now, your study looked at two Louis Vuitton, or LV, handbags that were identical in quality, design style, and list price. And the only significant difference was in the brand logos on each handbag. And each handbag did, of course, have a brand logo, but they were very different. I wonder if you could describe what the differences were between the two logos because I think that'll illustrate what you were talking about in terms of a quiet or a loud logo.

DEILY: 07:20 The loud version, or what we're calling loud, has the LV initials printed over the entire handbag in the chessboard pattern of Louis Vuitton. So not in every kind of square but repeatedly printed the LV over the entire handbag. Now it also has brighter trim and a brighter handle, which help pick out the logo. Now the quiet version of the bag just basically has the chessboard pattern with the name fully spelled out, Louis Vuitton, but only in very tiny letters in one small square of the bag. You have to understand by looking at the handbag that it's Louis Vuitton, not by reading LV off the handbag but by knowing ahead of time that that chess word pattern is signaling that it's a Louis Vuitton bag and the handle and trim are dark. They're not pulling any printing out off the bags to highlight it. So a person that's looking at these two handbags, if you know nothing about handbags, one, you can see the LV pretty clearly. The other one, you can't see any printing at all unless you look very, very closely and find the one square that has the name printed out.

CROFT: 08:54

You also measured consumers' willingness to buy one or the other of these LV handbags by using transaction prices as opposed to list prices. You did this searching on two popular online markets that sell pre-owned products. So why is it the difference between transaction price and list price significant for your research?

DEILY: 09:19

Well, a list price is just that, the listed price. The transaction price is what a person actually pays for a product. These can be quite different. We know from real life, for example, while the list price for Lehigh tuition is about $59,000 a year now, the individual students may pay very different amounts. Now the list prices for our two handbags are, as you noted, exactly the same. Now, at the time that we collected the data, it was about $960 for each of these two bags. Now we wanted to have transaction prices so that we could see whether there were differences in the actual amount that people were willing to pay for the different versions of the handbag. We don't have Louis Vuitton sales data and in fact the firm advertises that it does not put its products on sale, implying that all the sales are at the listed retail price. So it would be impossible for us to discern any different willingness to pay by just looking at those list prices. So if we instead turn to the online markets for pre-owned products, we can use them, these prices at which these products are sold, to identify the value of the different signals to consumers. We collected the actual prices at which these items were sold. The transaction prices for these two handbags, which again were identical except for basically their logo, the prominence of their logo, and compared how much people were willing to pay for the one type of bag with the prominent logo versus the other with the quiet logo.

CROFT: 11:13

What did looking specifically at online market selling pre-owned products add to your study? I mean, looking at pre-owned versus new products?

DEILY: 11:27

Well, again, these products, these two handbags are sold at the same list price. If we look at the transaction prices, they're not being determined by Louis Vuitton. Instead, in the pre-owned market, the prices are determined by supply and demand. In this particular pre-owned handbag market. We can get a measure of the actual willingness to pay, particularly perhaps from the auction data. Some of our bags were auctioned. Others were sold at set prices. Now also because we're looking at used bags and you might think, "Well, that's a weakness of the study." We actually were able to use these prices for pre-owned bags to enrich our study because we could look at the impact of the condition of the handbag on willingness to pay. Our hypothesis was that the willingness of the newly rich people to pay would drop more slowly as the condition of the handbag got worse because much of the value to them of the handbag was purely in the logo, and as long as the logo wasn't obscured by tears or scars, the handbag to them was still valuable because its ability to signal the owner's status to the general public remained as long as the logo was still prominent. But for the patrician group, who were more knowledgeable about the product, the signal of a more badly used handbag, a handbag in worse condition, would be more degraded. And so we thought that as the condition of the handbag decreased and became worse, that the patricians would more quickly reduce their willingness to pay for the handbag compared to the newly rich.

CROFT: 13:39	Well, that brings us to kind of the bottom line here. What were the main findings from your study? Were consumers more willing to purchase the LV handbag with the quiet logo or the loud logo?
DEILY: 13:53	Yes, we did in fact find that consumers were willing to pay quite a sizable premium in dollars, about $161 to $174, which translated into about 17% to 18% of the retail price. This premium, this willingness to pay was higher for the quiet handbags as compared to loud handbags. Thus, there were really two different groups of people interested in two different kinds of signals, and the knowledgeable patricians were willing to pay more for a bag that did not send a loud signal. Second, we found, as we expected, that this patrician's group greater willingness to pay, they were willing to pay a premium, but that premium shrank more quickly as the condition of the quiet handbags declined more quickly than the nouveau riche group. Their willingness to pay also declined, but more slowly.
CROFT: 14:56	Going back to a point Oliver had brought up at the beginning about the conventional wisdom. It would have seemed at first blush here that paying a premium, paying a higher price for something that is a quiet logo or less ostentatious representation of the brand would be counterintuitive to that conventional wisdom, would it not?
YAO: 15:25	Absolutely, Jack. That's why our paper, in addition to making some very interesting, significant contributions to the theory, and I think our paper actually also makes some nice contributions to practitioners, and we have some very interesting manager implications for the practitioners. First of all, I think the manager implications can be back right to Louis Vuitton. I don't know whether they noticed. They probably know, but I would guess they probably don't. I meant to send them a copy for comments, but I was side-tracked last year when the paper was accepted. I may still do that in the next few weeks. What happens is that when Louis Vuitton, they put two identical, other than the signals, bags on sale, like the data we collected in our study, they actually priced them identical as well.
YAO: 16:29	Like Mary Beth mentioned earlier, the two bags in our study, they priced them at $950. I believe, right now, a couple of weeks ago, I checked, it was $1,200, exactly the same. But that begs the question, the finding from our research, if consumers they are willing to pay 17% more for one over another, why you price the same, right, identical for both? Doesn't make sense, right? And you can easily price the quiet bag $17-- or 17% more than the other. The consumer, they are still happy to pay for that. And then by doing that, potentially the company can maximize or improve their profitability. Of course, our findings shouldn't be limited to LV, and we believe the findings can be generalized to other luxury goods companies as well. And when they price their products, and they may want to keep the consumers' willingness to pay for quiet signals more than loud signals. They may want to keep that in mind when they price their products.
DEILY: 17:49	There is one theorist who speculated, because this is not the only case of what's known as twin products that are sold at very similar prices. In our case, identical list prices, but with differences in the prominence of their logos. This theorist speculated that by keeping the price the same, it protects the quiet bags-- if the quiet bags are more expensive, then people may take the price as well as the logo into account and it would kind of destroy the private signals value because more of the nouveau riche would also buy that using the price of the signal as well as the prominence of the

brand. It's speculation, but it's possible that LV is trying to protect the market to the patrician group by making it available at the same price. So that does not provide a signal to the nouveau riche that this is somehow a better bag. They're at the same price, just the prominence of the logo is different. And the theorist speculated that this was deliberate and a way to try to protect the value of that private signal, making it less likely that the nouveau riche would buy it because the price would be exactly the same and they would be more interested in the prominent logo.

CROFT: 19:24 That's an interesting point. So those who are interested in making sure everybody knows exactly what brand bag they have would naturally be looking for the one with the biggest-- that could be seen by the most people. Whereas those who are only interested in that select group of their peers, if you will, their fellow patricians or their-- I don't want to say more knowledgeable of the rich, but who are more savvy about the brand logos and what products are valuable and which ones aren't, that they're the ones that are attracted then to the quieter logo or the smaller one. The difference, as you mentioned up front on the logo between the two bags you were looking at, really was kind of striking. And the idea that there would be a group of people who would recognize the one and value it at a higher premium than the other is pretty interesting I think.

DEILY: 20:31 The whole goal of this study really was trying to isolate purely the willingness to pay for the signal. And finding this very different willingness to pay this premium for the quiet bag, I think, does suggest that there are people willing to pay more, and it does obviously come to the question why isn't Louis Vuitton taking advantage of that? And it could be that they just aren't informed about it, or it could be that they have their own reasons. And one that seems possible is that by keeping the prices the same, they kind of take price out as a signal to the buyer of which bag is more valuable and instead, they just rely on the logo. And if what's your goal is to make people aware that you're carrying a Louis Vuitton bag and having a big prominent logo all over the bag is a more efficient way to do that than with this very quiet handbag.

CROFT: 21:36 Oliver had talked about some of the operations, management and information systems applications of the study, potentially, particularly in the luxury goods companies. On these kinds of studies, I always wonder, even though consumers may not be the target market of the study itself, are there any takeaways for consumers from the research, from what you found?

YAO: 22:07 That's actually a very good question. The main takeaways are for the firms, how do they price their products. But I think there are some takeaways for the consumers as well. For example, if I go-- sometime, I don't know, I don't see in the very foreseeable future I would go buy an LV handbag, but if I ever will go to buy some LV handbags and there are two handbags and I cannot make a decision which one to buy, then I should buy the quiet one. Because I pay the same price, but consumers will value that more than the other one, right? So that means that I get a better deal buying the quiet handbag, right? So that's a quick takeaway for consumers.

DEILY: 23:00 You could think of that literally as if you think you'd use the bag for a year or two and then sell it on eBay or something, you'd get a higher price for the quiet bag then.

YAO: 23:10 Exactly, yeah.

CROFT: 23:11 Right. Yeah.

YAO: 23:11 Good point, Mary Beth.

CROFT: 23:14 The last piece of this is whether-- again, your study looked specifically at the luxury goods market, but is there anything that can be generalized to the non-luxury goods products as well from the study?

DEILY: 23:32 We don't really think so. You'd have to be very cautious about that. The role of brand signals for luxury products really seems pretty specific to those types of goods. They're signaling wealth and status. But say for instance, suppose you have a John Deere lawnmower, riding lawnmower, and it's prominently marked with a John Deere lawn mower, but the role of that logo is different. Oliver really talked about this at the very beginning. The logo is there to signal to other potential buyers of lawn mowers that this person purchased a John Deere and someone may ask about it, but it's really not likely to be a signal of the wealth or status of its owner. The brand there has a different role.

CROFT: 24:27 Now finally, is there anything we haven't discussed that you think listeners should know about this study?

DEILY: 24:33 I do think it's very interesting to use this particular data to try to isolate the value of the different signals, the different groups of consumers, but in a sense, the most innovative thing about the study was the fact that actually the first author, Yue Yuan, went to the used markets, the auction site eBay and another site where these types of goods are sold to collect this actual transactions data. And transaction prices can be very difficult to find sometimes and so collecting them from online markets may be an interesting source of data for other types of investigations into willingness to pay. It's a labor of love to collect this data, but it can be much more reflective of consumers' willingness to pay than are list prices.

YAO: 25:42 I will only add that conventional wisdom are not always correct. Sometimes the true wisdom can be counterintuitive and we have to think, oftentimes, we have to think outside the box.

CROFT: 25:57 I think that's a good note to end on. I'd like to once again thank my guests Oliver Yao and Mary Deily. Their research is an example of how faculty and students at Lehigh Business are advancing knowledge in their field and generating new ideas for education. This podcast is brought to you by ilLUminate, the Lehigh Business blog. To hear more podcasts featuring Lehigh Business thought leaders, please visit us at business.lehigh.edu/news. And don't forget to follow us on Twitter @Lehighbusiness. This is Jack Croft, host of the ilLUminate podcast. Thanks for listening.