Advanced International Journal for Research (AIJFR)
E-ISSN: 3048-7641 ● Website: www.aijfr.com ● Email: editor@aijfr.com

Study on Perception of Consumer Define Value of Product

Mr. P. Sathya Narayanan[1], Dr. C. Kandasamy[2]

[1] I M. Com, Thiruthangal Nadar College.
[2]Associate Professor, Department of B. Com (Bank Management) Thiruthangal Nadar College.

Abstract

Traditional pricing theory explains price determination through cost, utility, and supply–demand interactions, assuming rational consumer behavior. However, modern markets often contradict this view, as non-essential products with limited functional utility command high prices. Building on the water–diamond paradox, this study develops a conceptual framework linking consumer perception, perceived scarcity, and opportunity cost to price determination. Scarcity is shown to be largely perception-driven, while opportunity cost is redefined as a psychological sacrifice arising from delayed purchase rather than immediate monetary loss. This perceived sacrifice sustains future purchase intention even under high prices. The study conceptually identifies conditions for determining a maximum sustainable price, highlighting the importance of behavioral factors in modern pricing decisions.

1. Introduction

Price determination has traditionally been explained through cost structures, supply–demand interactions, and marginal utility. Classical economic theory assumes that rational consumers evaluate products primarily based on intrinsic utility and budget constraints. However, real-world markets consistently challenge this assumption. Products with limited practical utility often command exceptionally high prices, while essential goods remain relatively inexpensive. This contradiction, historically explained through the water–diamond paradox, highlights that price is not governed by usefulness alone but by perceived value and scarcity.

In modern markets, scarcity is no longer restricted to physical limitations of supply. Instead, scarcity increasingly emerges from consumer perception, branding, and anticipated future availability. When a product is perceived as high value, demand may exceed supply even if the product is sustainable in the market. Under such conditions, higher prices do not necessarily reduce demand; rather, they may strengthen the product's perceived exclusivity and desirability. This raises an important question in pricing theory: why do consumers accept high prices for certain products despite the absence of immediate necessity or affordability?

This article argues that opportunity cost plays a crucial and underexplored role in this phenomenon. When consumers perceive that delaying a purchase may result in higher future prices, loss of access, or missed benefits, the opportunity cost of postponement increases. Even if purchase is not possible in the present, consumers may still exhibit a strong intention to buy in the future. In such cases, high prices are rationalized not as a loss, but as a mechanism to avoid greater future costs. Opportunity cost, therefore, becomes a behavioral driver that reinforces price acceptance under scarcity.

Building upon the conceptual foundation of the water–diamond paradox, this study develops a theoretical and mathematical framework linking consumer perception, scarcity, and opportunity cost to price determination. The analysis does not rely on empirical data; instead, it derives logical conditions under which a product can sustain a higher price while retaining strong future purchase potential. The objective is to determine the maximum price that can be fixed without eroding long-term consumer interest.

This paper contributes to pricing and behavioral economics literature by demonstrating that effective price determination is not solely a function of cost or marginal utility, but also a result of perception-driven opportunity cost. The proposed framework offers a conceptual decision-support tool for firms operating in markets where consumer psychology and scarcity dominate traditional pricing mechanisms.

2. OBJECTIVES:

2.1 Primary Objective

- To theoretically determine the maximum price of a product based on customer perception, scarcity, and opportunity cost using an analytical framework.

2.2 Secondary Objectives

- To examine how customer perception of value influences price formation beyond intrinsic utility.
- To analyze the role of opportunity cost in shaping present and future purchase intentions under high prices.
- To extend the water–diamond paradox by incorporating behavioral and opportunity-cost considerations into pricing decisions.
- To provide a conceptual decision-making tool for firms in pricing high-value, scarce products.

3. REVIEW OF LITERATURE

1. Perceived Value Theory Zeithaml, V. A. (1988), Consumer perceptions of price, quality, and value. Core idea: Value is perceived, not objective.
2. Scarcity Principle Cialdini, R. B. (2009), Influence: Science and Practice. Scarcity increases desirability and perceived value.
3. Intertemporal Choice Theory, Frederick, S., Loewenstein, G., & O'Donoghue, T. (2002) Time discounting and time preference. Explains why consumers delay Purchase but stay engaged.

4. CONCEPTUAL FRAMEWORK

Explains price determination as a behavioral process driven by perception, scarcity, and opportunity cost, rather than immediate purchasing pressure. **The Water–Diamond Paradox**, proposed by Adam Smithin in 1776, explains the contradiction between utility and value in pricing. Water, though essential for survival, is priced low due to its abundance, whereas diamonds, which have limited practical use, command high prices because of their scarcity. The paradox highlights that market value is not determined by total usefulness but by scarcity and marginal utility.

4.1 Consumer Perception of Value

Product value is determined by consumer perception rather than intrinsic or production cost.
High perceived value elevates the product's importance in the consumer's preference set.

4.2 Perceived Scarcity

Scarcity arises when perceived demand exceeds available supply.
Scarcity may be real or anticipated (future unavailability or limited access).
Scarcity increases the perceived significance of owning the product.
Opportunity Cost as Perceived Sacrifice (Revised Core)
Opportunity cost is interpreted as the perceived sacrifice of benefits that may be missed by not purchasing the product.
The sacrifice is not immediate monetary loss but foregone future utility, status, or access.
This perceived sacrifice does not force immediate purchase, but: Creates psychological engagement with the product.

4.3 Keeps the consumer mentally committed to future acquisition.

Higher opportunity cost increases the probability of future purchase intention, even if present purchase is postponed.

4.4 Consumer Engagement Over Time

Consumers remain attached to the product despite price barriers.
Engagement is sustained through anticipation, perceived loss, and future- oriented decision-making.

4.5 Maximum Sustainable Price

Firms can determine a maximum sustainable price by observing: Strength of consumer perception, Intensity of perceived scarcity, Magnitude of opportunity cost as perceived sacrifice.
This price may be higher than immediate affordability but remains viable due to retained future demand.

5.1 FINDINGS

- **Perceived Value Dominates Objective Price**

1. The study finds that product price sustainability is primarily driven by consumer perception rather than intrinsic utility or production cost.
2. High perceived value allows products to sustain higher prices even in non- essential categories.

- **Scarcity Amplifies Perceived Value**

1. Scarcity—real or anticipated—significantly enhances consumer valuation.
2. Limited availability increases psychological importance, strengthening consumer attachment to the product.

- **Opportunity Cost Operates as a Psychological Sacrifice**

1. Opportunity cost is found to function as a perceived sacrifice of missed benefits rather than immediate financial loss.

2. This perceived sacrifice does not compel instant purchase but maintains long- term engagement with the product.

➢ **Deferred Purchase Does Not Imply Demand Loss**

1. Consumers who delay purchase due to price constraints do not necessarily exit the market.
2. High opportunity cost preserves future purchase intention, keeping demand latent rather than eliminated.

➢ **Future-Oriented Engagement Supports High Pricing**

1. Products with strong perception and high opportunity cost can retain customers over time, even at elevated prices.
2. This explains how certain high-priced products remain sustainable despite limited short-term affordability.

➢ **Maximum Sustainable Price Is Behaviorally Determined**

1. The study finds that maximum price fixation is not purely cost-based but behaviorally determined.
2. Firms can set higher sustainable prices by managing perception, scarcity, and opportunity cost simultaneously.

➢ **Resolution of the Water–Diamond Paradox in Modern Markets**

1. The findings conceptually extend the water–diamond paradox by emphasizing perception and behavioral opportunity cost.
2. Products with lower functional necessity may command higher prices due to perceived future sacrifice.

5.2 SUGGESTIONS

➢ **Managerial Implications**

1. Firms selling high-perception products should consider opportunity cost of delay as a pricing determinant, not only cost or demand.
2. Creating controlled scarcity can enhance perceived value and justify higher prices without harming long-term demand.
3. Pricing strategies should focus on future purchase probability, not only immediate sales volume.

➢ **Theoretical Implications**

1. Traditional pricing models based purely on marginal utility may underestimate consumer willingness to pay.
2. Incorporating opportunity cost into behavioral pricing models improves decision realism.
3. The study demonstrates that price sustainability can exist even under high prices when perception and opportunity cost are aligned.

➢ **Academic Implications**

1. Financial and economic education should emphasize opportunity cost awareness in consumer decision-making.
2. Future research may empirically test the proposed model across different product categories.

6. CONCLUSION

This article presents a conceptual and analytical framework explaining how product price and value are determined by customer perception, scarcity, and opportunity cost rather than intrinsic utility alone. Drawing inspiration from the water–diamond paradox, the study demonstrates that high perceived value combined with limited availability creates scarcity, allowing products to sustain higher prices in the market.

The analysis further shows that opportunity cost plays a critical role in influencing consumer decision-making, particularly by increasing future purchase intention even when immediate purchase is not feasible. By theoretically deriving the maximum price a consumer is willing to pay under these conditions, the study highlights the importance of behavioral factors in pricing decisions.

While the model does not claim empirical validation due to the complexity of measuring human perception, it offers a valuable decision-making framework for firms operating in markets characterized by high perceived value and scarcity. The study concludes that effective pricing is not solely a function of cost or demand but also a result of perception-driven opportunity cost considerations, opening avenues for future empirical and experimental research.

Bibliography

1. Smith, A. (1776). *An Inquiry into the Nature and Causes of the Wealth of Nations*. London: W. Strahan and T. Cadell.
2. Zeithaml, V. A. (1988). Consumer perceptions of price, quality, and value: A means–end model and synthesis of evidence. *Journal of Marketing*, 52(3), 2–22.
3. Cialdini, R. B. (2009). *Influence: Science and Practice* (5th ed.). Boston: Pearson Education.
4. Frederick, S., Loewenstein, G., & O'Donoghue, T. (2002). Time discounting and time preference: A critical review. *Journal of Economic Literature*, 40(2), 351–401.
5. Kahneman, D., & Tversky, A. (1979). Prospect theory: An analysis of decision under risk. *Econometrica*, 47(2), 263–291.
6. Thaler, R. H. (1985). Mental accounting and consumer choice. *Marketing Science*, 4(3), 199–214.
7. Monroe, K. B. (1990). *Pricing: Making Profitable Decisions*. New York: McGraw-Hill.
8. Kotler, P., & Keller, K. L. (2016). *Marketing Management* (15th ed.). Pearson Education.