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Special Research Report #704: Public Benefits Longevity Guarantees: Consumer willingness to pay for guarantees and perceptions about satisfaction and/or longevity guarantees from different outlets

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BACKGROUND

Consumers value various floral product attributes differently. For instance, as flower prices increase, perceived purchase risk increases because more money is spent on the product. As a result, price influences consumer expectations about the presence of a guarantee. Consequently, it is possible that people are willing to pay more for assurances of their floral product if the product costs more. A portion of this study was designed to determine consumer willingness to pay for different priced floral products with longevity guarantees.

Where the floral product is purchased also influences consumer expectations towards guarantees. Another part of this study was designed to investigate consumer opinions about different outlets' performance concerning guarantees on cut flowers. By knowing consumer willingness to pay for guarantees and opinions about different outlets' abilities to uphold the guarantees, the floral industry can determine the most profitable use of guarantees and establish more ways of differentiating themselves from their competitors. Many florists already have satisfaction guarantees and we explored participants' awareness of these satisfaction guarantees and if it is necessary to provide a longevity guarantee on top of the satisfaction guarantees.

METHODOLOGY

To determine consumer reactions to cut flower longevity guarantees, participants were asked to answer a questionnaire and participate in focus group discussions. Choice experiments were conducted to determine consumer willingness to pay for longevity guarantees. The experiment included giving participants the choice between two similar mixed flower bouquets/arrangements, each with a label where the price, longevity, and guarantee varied (Exhibit 1). The choice experiments were repeated twice. During the first round, participants were instructed that they were purchasing the bouquets for themselves and during the second round they were purchasing the bouquets to use as gifts.

Next, participants were asked to indicate the level of importance of cut flower longevity guarantees for different outlets (florist shops, grocery stores, big box stores, club stores,

online outlets, farmers markets, and nursery/garden centers). Additionally, participants were asked if they assumed the various outlets have satisfaction guarantees, and how easy it would be to redeem their cut flower longevity guarantees at the different outlets. The questionnaire was administered during May 2011 in Minnesota, June 2011 in Texas, and July 2011 online in the United States. To ensure participants' representativeness of cut flower buyers, in the recruitment advertisement we specified that "you must be at least 18 years old and have purchased or received cut flowers in the past year." There were 130 participants from Minnesota, 84 from Texas, and 525 from the online questionnaire for a total of 739 participants. The average age of participants was 45 years old. The majority of participants were female (61%), had a college diploma, were in a relationship or married, had 2 to 3 people within their households, and had an average 2010 household income between \$50,001 – 65,000.

After they finished the questionnaire, approximately 120 of the Minnesota and Texas participants participated in focus group discussions in order to gain a deeper understanding of their thoughts and attitudes toward longevity guarantees.

Which would you rather purchase for yourself?



Choice A
Longevity 5-7 days
No Guarantee
Cost \$34.99



Choice B
Longevity 8-10 days
Guaranteed
Cost \$37.99

Exhibit 1. An example of the choice experiments using real products

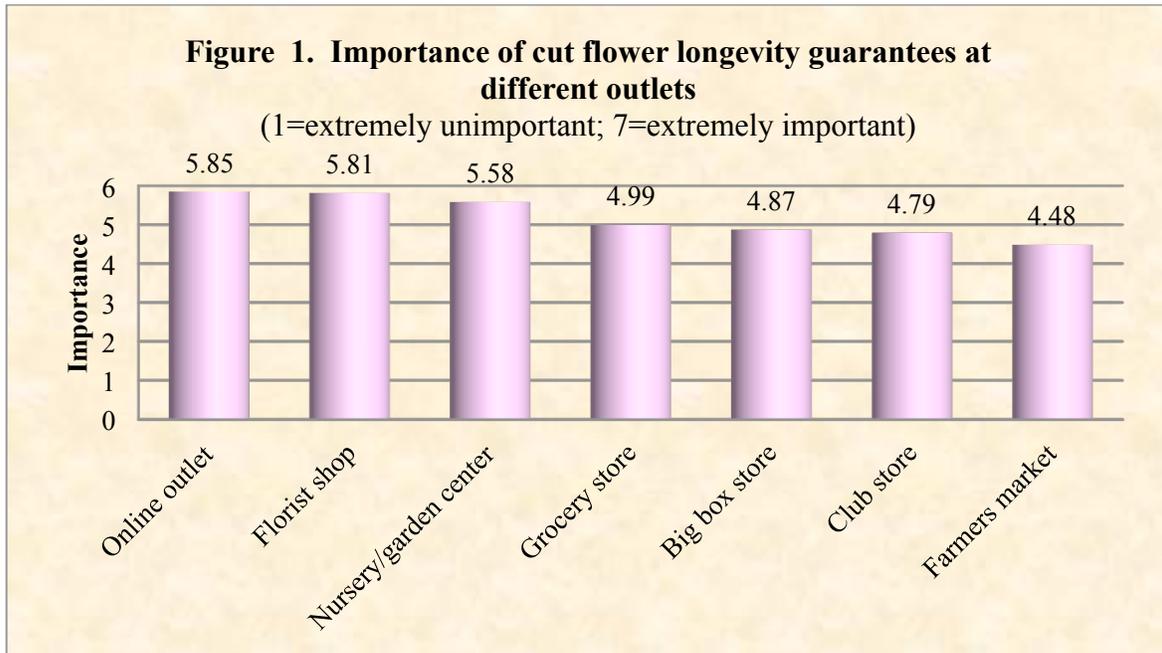
RESULTS AND CONCLUSIONS

Longevity Guarantees and Willingness to Pay: The choice experiment results for *oneself* show that for the arrangement, shown in Exhibit 1 (which costs about \$35), participants are willing to pay 3% more for the arrangement if it is guaranteed compared to the same arrangement with equal longevity but with no guarantee. If the arrangement is purchased as a *gift* for others, participants are willing to pay 7% more for guaranteed flowers compared to flowers with equal longevity but with no guarantee. Longevity plays an important role in participants' willingness to pay. Compared to flowers that last 5-7 days, participants are willing to pay 7% more for flowers that last 8-10 days, and they are willing to pay 17% more for flowers that last 11-14 days (for both flowers purchased for oneself and flowers purchased for others).

Overall, focus group participants felt that for less expensive flowers the guarantee was less important; they felt the more expensive the arrangement or if it was for a gift the more important the guarantee became.

Importance of Guarantees by Outlet: Outlet type influences the importance of cut flower longevity guarantees; participants rated the level of importance for flowers purchased from several outlets (1=extremely unimportant, 7=extremely important). Guarantees were the most important for flowers purchased from an online outlet with a mean of 5.85, followed by flowers from florist shops (mean=5.81), nursery/garden centers (mean=5.58), grocery stores (mean=4.99), big box stores (mean=4.87), club stores (mean=4.79), and farmers markets (mean=4.48) (Figure 1). Results indicate that guarantees are important from all outlets but participants felt cut flower longevity guarantees were more important in outlets specializing in flowers (online outlets, florists, and nursery/garden centers.)

Focus group participants felt that guarantees on flowers from online outlets were the most important because those flowers are ordered sight unseen and are typically ordered as gifts. As such, they carry greater risk because the arrangement may not be as satisfactory as expected. Focus group participants felt florists and garden centers have higher standards and reputations to uphold resulting in guarantees being more important from these outlets.



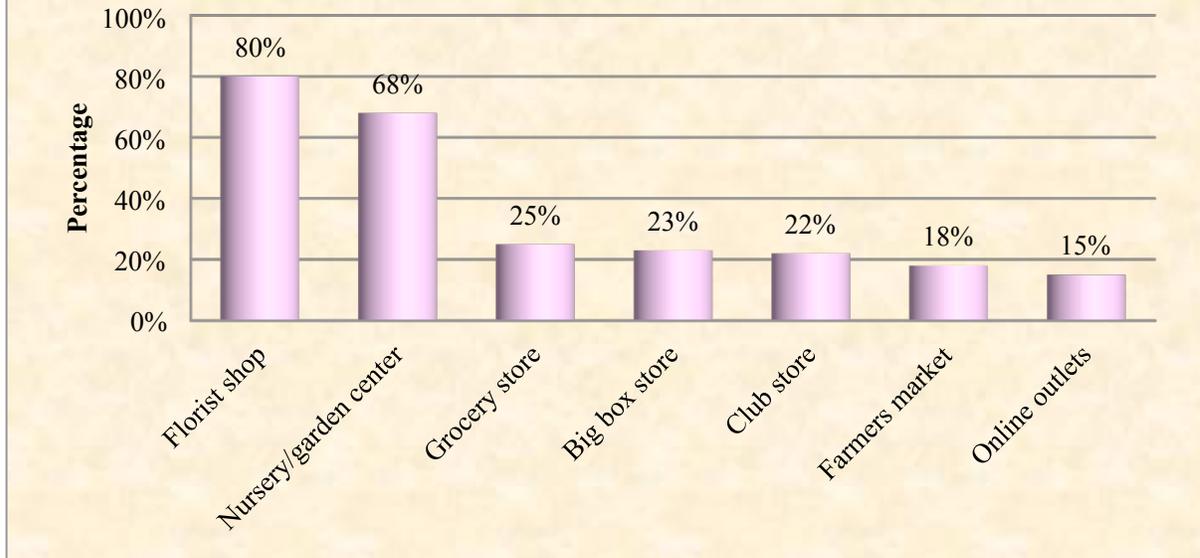
Outlet Satisfaction Guarantees: Many florists already have satisfaction guarantees and we explored participants' awareness of these satisfaction guarantees and if it is necessary to provide longevity guarantees on top of the satisfaction guarantees. Participants were asked if they assumed different outlets have satisfaction guarantees. Results show that 80% of participants assumed florist shops had satisfaction guarantees and that 68% assumed garden centers had satisfaction guarantees (Figure 2). Interestingly, fewer

participants felt grocery stores (25%), big box stores (23%), club stores (22%), farmers markets (18%), and online outlets (15%) had satisfaction guarantees for cut flowers. Focus group participants felt that florists and specialty shops have unique, unwritten satisfaction guarantees because consumers go to those shops assuming they have higher quality, whereas grocery, big box, convenience, and club stores were perceived to have lower quality and therefore no satisfaction guarantees. Many focus group participants felt farmers markets were unique outlets in that their products were relatively inexpensive and their products and vendors varied by the week. As a result, participants felt satisfaction guarantees were unnecessary in that setting.

Many focus group participants felt satisfaction is based on one's expectations and if they selected the flowers themselves then they do not have any justification in being unsatisfied since they selected the products. However, in a gift situation it would be different because givers have higher expectations for gifts since the gift reflects upon them and the giver may not have a direct role in the selection process nor see the gift prior to its delivery. Having little role in the selection and giving process made satisfaction difficult to define. When asked to define what is included in a satisfaction guarantee, focus group participants were unable to give a clear definition. However, they had some notions that it should include proper delivery and that the flowers should look like the what was shown in the photo (if ordered online); otherwise they felt it varied depending upon the person and outlet since stores do not advertise if they have satisfaction guarantees or what is included.

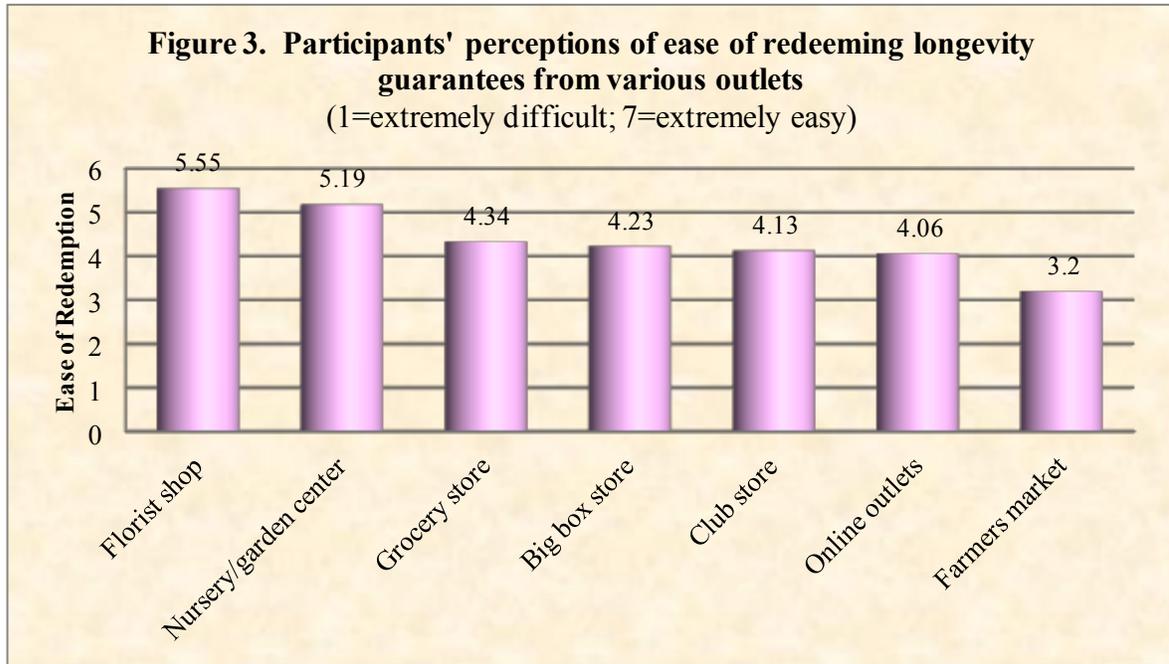
There is no doubt that satisfaction guarantees are important. Longevity guarantees are different from satisfaction guarantees and are very specific. For example, when a consumer purchases an arrangement from a florist with a satisfaction guarantee, if the arrangement wilts the next day the consumer might go back to the store and redeem the guarantee; but, if the arrangement wilts in 4 days, s/he might not be sure if s/he can go back and redeem the guarantee even though s/he is disappointed. With a longevity guarantee, the florist provides specific instructions saying that the arrangement is guaranteed to last for 5 days and if it wilts in 4 days, the consumer is very confident that s/he can go back to the store and redeem the guarantee. In this aspect, the longevity guarantee fills the knowledge gap and provides a higher level of satisfaction to consumers.

Figure 2. Percentage of participants who assume the following outlets have satisfaction guarantees (1=yes; 0=no)



Ease of Redeeming Guarantees: When asked how easy they expected it would be to redeem their longevity guarantees at different outlets (1=extremely difficult, 7=extremely easy), participants indicated that it would be easiest at florist shops (mean=5.55), followed by garden centers (mean=5.19), grocery stores (mean=4.34), big box stores (mean=4.23), club stores (mean=4.13), and online outlets (mean=4.06) (Figure 4). Participants felt it would be more difficult to redeem their guarantees at farmers markets (mean=3.20).

Focus group participants felt it would be easier to redeem guarantees from florists or garden centers because these shops have reputations to uphold, want loyal customers, and usually have return policies in place. Additionally, participants felt these outlets tended to be specialized and develop relationships with their customers more frequently than the larger retail outlets making it easier to talk to someone and obtain a replacement. They also expected more from these specialized outlets and felt that employees at these outlets are more knowledgeable and want to satisfy their customers, listen well, and try harder not to lose business. Focus group participants did feel they could go to grocery stores, big box stores and club stores and complain and get their money back since these outlets allow people to return anything if one has a receipt and is within the guarantee time limits. Yet, they were skeptical if they could get a replacement similar to their original arrangement and felt that the customer service people may hassle them over returning flowers to these outlets. Participants felt farmers markets and street vendors are a different type of business from the other outlets because they do not have guarantee policies in place and have more flexibility with their products.



RECOMMENDATIONS TO THE INDUSTRY

Consumers feel there is value in cut flower longevity guarantees but are cautious about paying much more to obtain that guarantee. For a \$35 arrangement, most consumers would be willing to pay 3% (for flowers purchased for oneself) or 7% (for flowers purchased for others as gifts) more to obtain that guarantee. For smaller, less expensive flowers the guarantee needs to cost less because it is less important than for larger, more expensive flowers that tend to be used as gifts. For the more expensive arrangements (>\$50) guarantees are considerably more important. For these arrangements, florists can wrap a guarantee into the initial price and advertise in-store that these arrangements have guarantees included. By wrapping in the cost of the guarantee, the consumer feels reassured but does not necessarily see the extra cost.

Guarantees are important, especially for online sources because it reassures gift givers/purchasers of obtaining the correct gift and that it will be a high quality product. Florists and garden centers should also let consumers know they have guarantees because these are specialty stores with more knowledge and firmly stand behind their products. More visible communication about this point may reduce perceived risk, especially for higher priced items like floral gifts.

Many people feel that florists and garden centers already have satisfaction guarantees but cannot define them. The floral industry can use this opportunity to differentiate themselves from other general retailers by defining and communicating what is included in their satisfaction guarantees. Providing longevity guarantees on top of satisfaction guarantees would potentially increase the level of consumer satisfaction and confidence. Florists were seen as the easiest outlet at which to redeem guarantees. This can be used to differentiate florists from the competition by emphasizing that their staff are more knowledgeable resulting in higher quality products and services, the ability to correctly

diagnose problems (and fix them), and that they are there to help customers and develop longer-term relationships with customers. As a result, these stores are better able to meet and exceed consumers' expectations.

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