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The effects of customer service, branding, and price on the perceived value of local telephone service

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Abstract

This study investigates the effects of customer service quality (in installation, repair, and billing), brand-advertising expenditures, and real price competitiveness (RPC, price competitiveness adjusted for consumer confidence in the economy) on customer value among residential local telephone customers. Aggregate monthly data (over a 29-month period) for a company offering local telephone service are analyzed using hierarchical Prais–Winsten AR1 regression techniques incorporating appropriate lagged values of the predictors. Each of the predictors, interpreted on the margin, significantly impact perceptions of customer value relative to the company's telephone service. Principles of incidence and centrality as related to the analysis of incidence-based vs. general population measures are introduced. Theoretical and practical implications for the study and management of customer value are discussed.

1. Introduction

Accentuating the impact of the Bell breakup in the early 1980s, the Telecommunications Act of 1996 has opened the door to deregulated competition. These changes in conjunction with increasing customer expectations and demands are impacting telephony services such as long-distance, wireless, and Internet, but also local telephone service. The formerly monopolistic local service industry is a fruitful testing ground for perspectives that have been developed in large measure on product data in more static industries. Along these lines, this manuscript investigates drivers of customer value among local telephone customers, identifies important principles governing the analysis of incidence-based vs. general population measures, introduces the concept of real price competitiveness (RPC), and assesses managerial implications for service firms over time.

2. Theoretical background

Many theories of customer choice and value have been proposed in understanding why customers (or potential customers) make the choices they make. Among these are justice and market signal perspectives that may be embedded in Zeithaml's (1988) means–end value model. In the context of this study, these perspectives are used to develop the importance of service quality in support processes, brand-advertising expenditures, and RPC as they relate to customer value in a service industry.

2.1. Customer value

For the purpose of this study, customer value is seen as a function of perceived quality in conjunction with price (Zeithaml, 1988; Rust and Oliver, 1994) and certain preferential factors. The customer "makes an investment (price) and experiences an outcome (quality)" (Rust and Oliver, 1994, p. 8). Customers who maximize the quality-to-price ratio tend to maximize return on investment. Some further argue that the disutility of price must be factored in to completely understand the utility of a given choice (Lancaster, 1968; Rust and Oliver, 1994). In contrast, Holbrook (1994) offers a typology of value which involves an interactive, relativistic, preference experience arising from perceptions of quality (excellence), convenience (efficiency), beauty (esthetics), politics (success), play (fun), morality (virtue), spirituality (faith or ecstasy), and image (esteem).

In sum, value is "some combination of what is received and what is sacrificed" (Rust and Oliver, 1994, p. 7)

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involving "preference in a given situation when we have to choose between alternatives, both of which we want" (Lamont, 1955, p. 189). In the final analysis, customer value impacts customer loyalty (Leung et al., 1998; Oliver, 1980; Zeithaml, 1988) and is the driving force behind customer attraction, retention, and repurchase (Holbrook, 1994; Rust and Oliver, 1994; Leung et al., 1998; Oliver, 1980; Zeithaml, 1988). Thus, focus on customer value is both appropriate and necessary for business managers.

Zeithaml (1988) offers a model of customer value incorporating intrinsic, extrinsic, and price attributes as well as high-level abstractions in conjunction with perceived quality as drivers of perceived value. Intrinsic attributes can be product specific involving the physical composition (Zeithaml, 1988) of a product or higher-level abstractions or attitudes such as service quality (Bitner, 1990). Extrinsic attributes or cues are related to the product or service but are not part of the product/service itself and may change over time (Zeithaml, 1988). Zeithaml identifies price, brand name, and level of advertising as three extrinsic cues to quality and ultimately value. Moreover, extrinsic cues are used instead of intrinsic cues when "the consumer is operating without adequate information about intrinsic. . .attributes" (p. 9).

Price is theorized to have an effect via objective and perceived monetary price as well as through perceived sacrifice as a result of the price paid. Price can impact value as a function of what is paid, how that price compares to other prices for like commodities, and what is foregone when that product or service is purchased. Finally, high-level abstractions form as a result of organizing memory in levels of abstraction from simple product attributes to complex personal values (Zeithaml, 1988) which produce overall attitudes (such as quality).

Zeithaml's (1988) model focuses primarily on product quality. Bitner (1990) extends this thinking to evaluations of service encounters (service quality) and its consequence for customer behavior. Bitner uses disconfirmation (perceived performance vs. service expectation) and causal attributions (as impacted by the marketing mix) to explain service encounter satisfaction. Service encounter satisfaction is then seen to impact perceived service quality resulting in consumer behavior toward the service firm in the form of word-of-mouth endorsements/criticisms, switching, or loyalty. Within this general framework, the importance of service quality is further understood as procedural justice, while brand-advertising expenditures and RPC are developed as market signals of value. This nesting of theory provides a general causal paradigm for customer value as well as the ability to address the individual elements of the model in terms of other perspectives that proliferate.

2.2. Customer service quality as procedural justice, an intrinsic cue of value

From Zeithaml's (1988) perspective as developed by Bitner (1990), service quality is a higher-level intrinsic attribution represented by dimensions of quality that can be generalized across product classes or categories. These dimensions are reliability, empathy, assurance, responsiveness, and tangibles (Parasuraman et al., 1985). To Zeithaml's intrinsic dimensions, procedural justice theory (Thibuat and Walker, 1975) explicitly adds interactional quality (nearly synonymous with reliability, empathy, assurance, responsiveness, and tangible commitments emanating from the service interaction) and resource allocation. This suggests that perceived encounter satisfaction and fairness (Bitner, 1990) are dependent on the quality of the outcome as well as the procedures involved to produce the outcome.

Recent research further contends that perceived justice and satisfaction are impacted by the interactional quality of the exchange between the service recipient and the party responsible for allocation of resources needed to resolve the issue at hand (Tyler and Bies, 1990; Lind and Tyler, 1988; Leung et al., 1998). Indeed, many argue that perceptions of justice and satisfaction may be affected more by the quality of the interpersonal interaction and the nature of resource allocation than by the quality of the outcome (Greenberg, 1990; Leung et al., 1993, 1998; Leung and Li, 1990; Moorman, 1991; Tyler, 1990). In all, the perceived value of a service offering will decline as experiential satisfaction declines accentuated by poor customer service and inadequate resource allocation.

2.3. Brand-advertising expenditures and price as extrinsic market signals of quality and value

As previously noted, brand-advertising expenditures and price are extrinsic attributes that relate to perceptions of value that consumers use when intrinsic attributes cannot be assessed or when intrinsic cues require too much investment (time, energy, etc.) (Zeithaml, 1988). Further, Zeithaml proposes that "extrinsic attributes serve as 'value signals' and can substitute for active weighing of benefits and costs" (p. 15). This aligns with the general spirit of market signal theory. Also, through Zeithaml's means–end value model, the different impacts (objective price, perceived monetary price, perceived nonmonetary price, and perceived sacrifice) of price can be considered. Further, research indicates that these *market signals* impact customer perception of service quality (hence value) (Steenkamp and Hoffman, 1994; Jacoby and Olson, 1985; Kirmani and Wright, 1989; Rao and Monroe, 1989; Steenkamp, 1989) and have great relevance for managers (Steenkamp and Hoffman, 1994).

To understand these issues, one may organize service quality attributes in terms of search, experience, and credence factors (Steenkamp and Hoffman, 1994; Nelson, 1970; Darby and Karni, 1973; Parasuraman et al., 1985). Search attributes can be investigated prior to purchase and include various company characteristics including reputation or image. Experience factors are rooted in actual