



How retailer money-back guarantees influence consumer preferences for retailer versus national brands[☆]



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ABSTRACT

Retailers often use money-back guarantees to reduce consumer perceived risk about brand quality and to increase their market share. The effect of such guarantees on perceived product quality and ultimately preference and product choice depends on their perceived value and credibility, related to other extrinsic clues, such as price and brand. An analysis of an experimental design with a national sample of consumers shows that compared with a simple money-back guarantee, a double money-back guarantee does not further increase the relative preference for a retailer brand over a national brand. Furthermore, the size of the effect of a money-back guarantee is small, moderated by the effects of other information on product quality, such as the size of the price differential between retailer and national brands. Finally, the effect of a money-back guarantee differs, depending on the customer–retailer relationship: A retailer with high credibility can influence regular customers less by guarantees.

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1. Introduction

Satisfaction or money-back guarantees signal quality (Boulding & Kirmani, 1993); when product quality is difficult to assess directly, the guarantee exerts a positive effect on both perceived quality and purchase intentions (Moorthy & Srinivasan, 1995). Retailers frequently use this guarantee, together with a price advantage, to reassure customers and increase the perceived quality of their brands, particularly when the retailer's store brand suffers from negative perceived comparisons with national brands (Bellizzi, Kruckeberg, Hamilton, & Martin, 1981). Some retailers increase the offered money-back compensation further, in expectation of an additional effect on perceived quality and sales – up to and including a double money-back guarantee. For example, two of France's largest hypermarket chains (Auchan and Casino) offer double money-back guarantees on their store brands. To analyze the decision to offer such a guarantee, this study turns to option theory (Heiman, McWilliams, Zhao, & Zilberman, 2002) and considers the higher short-term financial risk and medium-term reputation risk associated with offering such a guarantee, which can be profitable only by inducing large sales increases.

The central research focus of this article therefore is the added effect of a double money-back guarantee and the capacity to increase relative

preferences for a retailer brand over a national brand. A nationwide sample of French consumers responded to an online survey about an everyday food product (orange juice) in an experimental framework that manipulated the information provided on the packaging.

With this investigation, the present study adds to extant literature in several ways. First, this article establishes that a satisfaction guarantee increases product preference for a low-value product category with high repeat purchases, limited perceived risk, and low effective probability of returning the product. Signaling theory establishes that for durable products (high perceived risk, low frequency), only a high quality firm can propose a satisfaction guarantee. This study extends that proposition by showing that in high credibility conditions, firms with lower quality, staple products can increase sales with such an offer. For example, a retailer can compensate for the poor perceived quality differential of its retailer brand by offering this guarantee. Moreover, this study confirms prior findings from the consumer perspective that indicate increasing compensation size (e.g., simple, double) actually has no effect, unless the credibility of the offer is low. Second, by integrating several sources of information about product quality, this research highlights the low importance of the guarantee, relative to other sources of information about product quality (e.g., brand, price) and the resulting potential interaction effects. Third, to confirm the external validity of the laboratory findings, this study applies scenario-based methods, which reveal that these guarantee effects hold not only among college students but also across broader populations of consumers.

2. Theoretical framework

Retailers can offer two types of guarantees: a manufacturer's guarantee required by law, provided on behalf of suppliers, and a satisfaction

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or money-back guarantee, which offers customers an option to return goods purchased. This service policy appeals to dissatisfied customers, whether this dissatisfaction results from a product defect, the product's insufficiency for the customer's needs, or the customer's own bad decision (Davis, Gerstner, & Hagerty, 1995). Unlike a manufacturer's guarantee, a satisfaction guarantee allows the customer to return a product due simply to displeasure, not only because the product does not work properly. A retailer that offers such a guarantee provides both types of guarantees. In turn, the terminology describing the many types of satisfaction guarantee defines the type and size of compensation, the exercise (repair, exchange, refund), and the activation (grounds, duration, cost, conditions; Heiman, McWilliams, & Zilberman, 2001). This article examines specifically the effect of the size of the compensation in a direct refund situation.

In so doing, this study takes a retailer perspective on the lower perceived quality of the brand. Theoretical studies show that compared with a high quality firm, a low quality firm has a higher incentive to invest in marketing activities that provide more information to consumers (Kuksov & Lin, 2010).

2.1. Effect of money-back guarantee

A satisfaction or money-back guarantee provides an effective signal of quality that reduces uncertainty (Heiman et al., 2001) and increases perceived quality (Boulding & Kirmani, 1993; Moorthy & Srinivasan, 1995). Signaling theory (Kirmani & Rao, 2000; Spence, 1974) proposes an explanation for the conditions in which a guarantee reliably signals quality and influences consumer choice (Boulding & Kirmani, 1993; Erevles, Roy, & Yp, 2001). That is, when consumers confront information asymmetry about true product quality, they assess the negative effect of the penalty the seller will bear by selling a poor quality product and thus sending a false signal (Kirmani & Rao, 2000). This penalty results from the bond the seller would lose if the signal proved to be false, in relation to both direct refund claims (amount of refund, expenses) and indirect reputational implications. Further penalties involve the return rate, influenced by the perceived quality of the market mechanism used to detect misleading uses of the signal (ease of understanding, interest in comparison) (Heiman et al., 2001).

As a key determinant of choice, quality instead increases purchase intention. In this research, to focus on the direct link between the guarantee and consumers' relative preference for a retailer brand over a national brand, the experimental design accounts for differences in brand perceived quality and manipulates two other factors that may affect perceived quality (i.e., price and level of reimbursement for satisfaction guarantee).

2.2. Extension from durable to staple products

Uncertainty is high for new or low frequency purchases, because analyses of intrinsic attributes demand substantial efforts and quality remains difficult to evaluate (Zeithaml, 1988). Most studies of guarantees focus on durable products whose postpurchase value is high (Heiman et al., 2001). Yet a guarantee also could have an effect on non-durable products. In low perceived risk and high research cost scenarios, consumers likely concentrate on one or two cues that are easy to collect and analyze, such as the brand or package information (Zeithaml, 1988). Therefore, a guarantee could serve as a prepurchase signal of the retailer's quality promise and commitment to protect consumers from defects.

2.3. Effect of increased compensation

The effect of increased compensation on perceived quality depends on the value of the guarantee for the consumer, moderated by credibility (Biswas, Pullig, Yagci, & Dean, 2002; Kukar-Kinney & Walters, 2003). For example, doubling the refund increases the guarantee value by

offering the consumer a greater net benefit (receives more than paid for the product). This tactic also increases the potential cost for the retailer and should reinforce the strength of the signal, as well as the incentive for dishonest use of the guarantee (moral hazard).

Little research addresses the specific effect of increased compensation though. Shimp and Bearden (1982) indicate a positive but nonlinear effect in which only a high guarantee has an effect. More research pertains to price-matching guarantees, but these studies similarly offer mixed results: Some findings support a positive effect, but several studies (e.g., Kukar-Kinney, 2006) report a curvilinear relationship in which a high penalty has lower credibility and is less effective than a normal-level penalty, according to the "too good to be true" effect (Goldberg & Hartwick, 1990). However, with a credible guarantee,

H1. (a) Compared with no guarantee, a guarantee and (b) compared with a simple money-back guarantee, a double money-back guarantee increases relative preference for the retailer brand versus the national brand.

2.4. Brand effect

Consumers value a retailer name as a brand, either for itself or for the information provided about service and product quality (Collins-Dodd & Lindley, 2003; Dick, Jain, & Richardson, 1996). Satisfaction with the brand (whether retailer or national) should lead to greater preference for that brand. At the product level, satisfaction encompasses all past experience with the product; good experiences also lead to loyalty, which reduces choice uncertainty (Roselius, 1971). Loyalty in turn prompts greater trust (Bandyopadhyay & Martell, 2007; Chaudhuri & Holbrook, 2001) and perceptions of greater value (Corstjens & Lal, 2000; Grewal, Krishnan, Baker, & Borin, 1998) for the brand.

At the retailer level, the retailer's own brand can affect the effect of a guarantee, by influencing credibility. A retailer with low brand value offers little credibility in a guarantee, with little effect (Boulding & Kirmani, 1993; Miyazaki, Grewal, & Goodstein, 2005). In contrast, if a retailer brand already provides a credible signal of good quality, the contribution of the guarantee should be positive (Price & Dawar, 2002). To take the retailer brand effect into account, this study considers regular patronage of a store, which corresponds to behavioral loyalty (Dick & Basu, 1994). Consumers that already patronize the chain should believe that the retailer's brand has good credibility and should not challenge the credibility of the guarantee, such that the effect on perceived quality remains positive. In contrast, an occasional, as opposed to regular, customer likely senses greater uncertainty about the quality of the retailer brand, such that the effect of the guarantee in reducing this uncertainty should be greater. However, the effect of a double money-back guarantee could diminish for an occasional customer, for whom the low credibility of this extreme offer is not offset by brand credibility, as is the case for regular customers (Goldberg & Hartwick, 1990). Therefore,

H2a. The positive effect of a satisfaction guarantee on relative preference for a retailer brand versus a national brand is greater (smaller) for occasional (regular) customers of the store.

H2b. The effect of increased compensation on the relative preference for a retailer brand versus a national brand is smaller (greater) for occasional (regular) customers of the store.

2.5. Moderating effects of price difference

Price directly influences choice, as the most visible, accessible, and reliable information, through two contradictory effects (Zeithaml, 1988). First, price has a negative effect by increasing the perceived sacrifice and reducing perceived value (Dodds, Monroe, & Grewal, 1991). That is, the perceived value of and relative preference for the retailer brand should increase with a widening price differential between the retailer brand and the national brand. Second, price also plays a positive

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