



## The link between customer satisfaction and price sensitivity: An investigation of retailing industry in Taiwan

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### ABSTRACT

Are customers less likely to seek bargains once they are satisfied with a product and service? This study examines the relationship between customer satisfaction and price sensitivity. Specifically, satisfaction is divided into economic satisfaction derived from tangible products and social satisfaction provided by service encounters. This survey of 248 retailer–consumer dyads shows that economic satisfaction is negatively associated with price sensitivity. However, social satisfaction is positively related with price sensitivity, especially for female customers and customers with high patronage frequency. Interpersonal relationships emphasized in the Chinese collectivist societies tend to influence customers' price sensitivity. These findings have many implications for researchers and practitioners in the retail sector.

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### 1. Introduction

Changes in industry structures and lifestyles in recent years have given the fast moving consumer goods (fmcg) retailing industry a huge boost. Tohmatsu (2000) suggests that the retailing industry is a critical indicator of a country's economic development. In the United States, retailing's contribution to the economic growth has exceeded that of the manufacturing industry since 1940s (Fisk et al., 1993). This is particularly true for the employment opportunities created by the industry, which currently constitutes 75% of employment in the US (Berry and Parasuraman, 1993). Taiwan is not far behind. According to the Ministry of Economic Affairs of Taiwan (Ministry of Economic Affairs of Taiwan, Department of Statistics, 2011), retailing sales exhibited an average growth of 5% from 2002 to 2007. Despite of a slight decline of 1% in 2008, Taiwan's overall retailing sales gained a growth of 6.57% in 2010, achieving US\$120.6 billion. If developed countries' retailing performance was to be used as a benchmark, Taiwan's still has much room for future development. Its future growth and sustainability rests largely on customer satisfaction and the entire fmcg manufacturing rests on its success, as retailing is the nearest link in the supply chain to the customer.

Customer satisfaction has been widely studied in marketing research. Some scholars explore the antecedents of customer satisfaction, including the impact of service quality on customer satisfaction

(e.g., Parasuraman et al., 1988; Herrmann et al., 2000; Kim et al., 2004; Gonzalez et al., 2007) and the association between justice and customer satisfaction (e.g., Teo and Lim, 2001; Smith et al., 1999; Colquit and Greenberg, 2003; Vicente et al., 2006). Others examine the consequences of customer satisfaction, such as customer loyalty (e.g., Anderson and Sullivan, 1993; Fornell, 1992; Yu et al., 2005; Guillaume, 2008; Vesel and Zabkar, 2009) or company profitability (e.g., Anderson et al., 1994; Anderson and Sullivan, 1993; Vinnie, 2001; Coelho and Vilares, 2010). Yet few studies examine the relationship between customer satisfaction and price sensitivity in consumer markets. Does a satisfied customer not care about price? In many less-developed countries, price negotiation or bargaining in retail purchases, particularly with smaller retailers, is still prevalent (Kaynak, 1988). Chinese consumers were found to have a high level of bargaining intention (Lee, 2000) and to use competitive strategies in negotiation (Graham et al., 1988).

Price sensitivity refers to the change of consumer demand resulting from the rise or fall of price, akin to 'price elasticity' in economics. A firm that caters to customers with low price sensitivity gains greater competitive advantage in products and services, thereby increasing company profitability (Wakefield and Inman, 2003). Detiveaux and Rooney (2001) argue that when products can satisfy customer demands and a relationship with customers has been established, price becomes a much lower priority. In other words, there might be an association between customer satisfaction and price sensitivity. Satisfaction may be derived from the product (economic satisfaction) and/or interaction with the salesperson (social satisfaction), and both could influence a customer's price sensitivity. Chinese society emphasizes interpersonal relationships (Davies et al.,

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1995; Leung et al., 2005), therefore the ties, interactions, and communication between firms and their consumers may be like “social relationships” rather than the largely transactional business relationships in the West. Therefore, it might be better to treat the perception about customer satisfaction as separate and distinct. Based on this idea, this study aims to examine (1) the relationship between the two constructs of satisfaction and price sensitivity in a retailing market; (2) the moderating effect of gender, product involvement and customer patronage frequency on the relationship between customer satisfaction and price sensitivity. The relationships examined in this study are rooted in national and consumer cultures. The above cited literature hinted at comparisons between western and Chinese consumer behaviors like price bargaining and loyalty in patronage. This research is expected to contribute to this on-going comparative cultural discussion.

## 2. Theory and hypotheses

### 2.1. Customer satisfaction

Customer satisfaction is considered an emotion-based response which is determined by whether the expectations of consumers for the product/service prior to purchase are consistent with the actual product/service obtained following purchase (Oliver, 1981). Churchill and Surprenant (1982) posit that consumer satisfaction is derived from the results of consumers purchasing and using products. Similarly, Fornell (1992) postulates that satisfaction is an overall feeling that can be directly evaluated; consumers compare a product or service with their ideal standards. When measuring customer satisfaction, scholars often use unitary constructs for measurement. For example, Ostrom and Iacobucci (1995) were concerned with the perceived value in service industries; their study used the degree of closeness between product price, service efficiency, service personnel attitude, and overall company performance, and the ideal companies of consumers as a comparative construct. Duman and Mattila (2005) used cruises as a case study. The perceived overall satisfaction with travel services was measured as a composite of feelings of liking the luxury of cruise voyages and, whether the cruise exceeded expectations.

According to the social exchange theory put forth by Blau (1964), exchange patterns can be divided into social exchange and economic exchange. The former is based on trust, obligations, and gratitude, whereas the latter involves contractual obligation. Similar to Blau (1964), MacNeil (1985) and Rousseau and Parks (1993) presented a contract concept by dividing exchange relationships into transaction contract and relational contract. The former is similar to the economic exchanges, while the latter resembles the social exchanges. This economic-social perspective has also been applied to customers' satisfaction with an organization (e.g., Andaleeb, 1996; Gassenheimer et al., 1998; Geyskens and Steenkamp, 2000; Yu and Pysarchik, 2002; Brown et al., 2006). Hence, when consumers purchase products, in addition to the economic implications of the purchase itself (economic satisfaction), non-economic exchange behaviors (social satisfaction) will also affect customers' satisfaction. For example, service attitudes, service processes, and expert knowledge may all influence social satisfaction and would be considered in this study.

### 2.2. Price sensitivity

Price is an important element in marketing. Monroe (1973) defined price sensitivity as the degree of awareness and response exhibited by consumers when facing changes in prices of products or services. However, studies dealing primarily with the price elasticity of supply and demand belong to the field of macroeconomics and

cannot comprehend the degrees of reactions different consumers have towards prices, also precluding the performance of market segmentation (Gatignon, 1984; Kanetkar et al., 1992). Consequently, some scholars have suggested the individual as a subject for measuring price sensitivity, as in Lichtenstein et al. (1988) work, which used price accepted range as a consumer reaction towards price changes. In addition, Kalyanaram and Little (1994) present the concept of price threshold, using upper and lower thresholds to represent the ranges of consumer price acceptance. Following this idea, researchers have generally asserted that negative consumer reactions towards price increases exceed positive consumer reactions towards price reductions (Hardie et al., 1993; Kalwani et al., 1990; Mayhew and Winer, 1992; Putler, 1992).

There are many factors that may impact on price sensitivity, such as advertising exposure (Bolton, 1989; Kanetkar et al., 1992; Eskin and Penny, 1997; Luo and Homburg, 2007), purchasing contexts (Wakefield and Inman, 2003; Goldsmith et al., 2005) and product knowledge (Rao and Sieben, 1992). Research on the subject of price sensitivity aims to discover which marketing tools, or which variables, would affect price sensitivity, allowing for the establishment of different market segments. However, the internal thought processes of consumers are complicated and difficult to understand; customer satisfaction is one of these thought processes.

#### 2.2.1. The relationship between customer satisfaction and price sensitivity

This study uses social exchange theory and equity theory to establish the relationship between customer satisfaction and price sensitivity.

Social exchange theory grew out of the intersection of economics, psychology and sociology. According to Homans (1958), it was developed to understand the social behavior of humans in economic undertakings. Literature (LaGaipa, 1977; Nye, 1979; Emerson, 1981) indicates that social exchanges follow three assumptions: (1) social behaviors are a series of exchange; (2) individuals try to maximize rewards and minimize costs; (3) when an individual gains rewards from a third party, he/she feels obliged to return the favor. In this study, shopping is a social exchange, including material goods and non-material ones. When a party transfers resources (products/services vs. money/time) to another, he/she expects to receive similar feedback. The parties involved try to minimize costs and maximize returns, and returns are given in tangible or intangible forms. Therefore, the shopping behavior meets the three assumptions in the social exchange theory. The interaction between two parties results in various contingencies, where the parties modify their resources to each others' expectations (Homans, 1958).

If one party feels that the exchange was fair, then according to equity theory (Adams, 1963), it will typically take no action because what it receives from the exchange (outcomes) is in line with what it brings to the exchange (inputs). If one party feels that the exchange was unfair, it will be motivated to change this unfairness. One method of restoring fairness is to reduce investment (Walster et al., 1973) or to back off and give less (Adams, 1963). Customers typically measure their satisfaction with a product or service by its perceived value at the price they have paid and the cost incurred in acquiring the product or service, usually in comparison with another similar purchase or another customer with a similar purchase. If the price paid for a product/service was high, and the outcome was unsatisfying, perceived inequity may urge the customer to restore equity in the exchange. The customer may become unwilling to commit further to that purchase or future purchases at the same retailer. Price sensitivity increases. Conversely, if customer satisfaction was high, then the customer would be more willing to commit more, becoming more

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