

# Impact of Product Quality, Service Quality and Contextual Experience on Customer Perceived Value and Future Buying Intentions

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## Abstract

Recognizing that high satisfaction leads to high customer loyalty, companies today are aiming for total customer satisfaction. This article explains relative impact of product quality, service quality and contextual experience on customer perceived value and intention to shop in the future. The data has been collected using a questionnaire from 205 customers of a national retailer chain. The relative importance of product quality, service quality and contextual experience on customer perceived value and thus on customer preference and future intentions was measured using multiple regression. Also, the contribution of perceived value to preference and thus on future buying intention was also measured. Structural Equation Model (SEM) using Amos 4 was used to find the overall fitness of the model. It was found that product quality, service quality and contextual experience have a major influence on customer perceived value.

**Keywords:** Product Quality, Service Quality, Contextual Experience, Customer Perceived Value, Preference, Buying Intention, Structural Equation Modeling

## 1. Introduction

Creating customer value has become the major source of competitive advantage for organizations (Woodruff, 1997). As businesses and consumers move forward, businesses are being measured more and more by the value they create for their customers. Value of the product or service of a company is always defined on customers' terms. It is a matter of perception. If the product or service is perceived by the customer as having value, then that perception will result in a purchase. Customer value may also arise from having used the product consistently with satisfactory results. Customer value in its most basic form is merely the difference between the benefit received from a product and the cost associated with that product. A buyer's satisfaction is a function of the product's perceived performance and the buyer's expectations. Today's consumers are much more educated and informed due to the power of the internet. As such, they will tend to purchase products they feel are worth the cost needed to obtain such product. Consumers tend to know exactly what they want to purchase and will not waste time with unsuitable products. It is important to have something unique that is not readily available anywhere else. This will make the product perceived as very profitable. Many studies have been done to explore the determinants of customer value for more than half century. In the era of service economy, how to meet customers' expectations and to measure customers' satisfaction turns to be the locus of value creation (Gorst et al., 1998; Kristensen et al., 1992; Parasuraman et al.,

1988). But studies of Pine and Gilmore (1999, 2000) argue that meeting customers' needs and expectations is not enough for companies to create value in the next generation. After that, many discussions and thoughts have been proposed based on their experience theory (Kozinets et al., 2002; Lawn, 2004; Mathwick et al., 2001, 2002; Mitchell, 2003; Pine & Gilmore, 2000; Poulsson & Kale, 2004).

According to Pine and Gilmore's theory, the progression of economic value can be broken down into four stages. The first stage is to offer commodities to customers for them to make their own products. The second stage is of making standard products for customers. The third stage of value added activities is to deliver services to customers. And the fourth stage, which is the major contribution, is the stage of experience.

This study proposes product quality, service quality and contextual experience as three determinants of customer's perceived value which will influence the preferences and intention of customers. The article proceeds with the review of literature and framing the basic research model. Further to this, the methodology used for this research is explained in detail. In the analysis, the impact of Product Quality, Service Quality and Contextual Experience on Customer Perceived Value and Future Buying Intentions were investigated using Structural Equation Modeling and this revealed the relative impacts of determinants of perceived value and how much each of them contribute.

## **2. Review of Literature**

The literature review covers in detail different facets of quality and its relationship with perceived value, preferences and future intentions. Perceived value assists in creating competitive advantage, as consumers will only purchase products or services they value (Doyle, 1998). Many studies have been done to explore the determinants of customer value. From the mid-twentieth century, the concept of value is mainly focused on how to manufacture products with high quality (Crosby, 1979; Feigenbaum, 1951; Juran et al., 1974).

### *2.1 Product Quality*

Product Quality is defined as the collection of features and characteristics of a product that contribute to its ability to meet given requirements. It is recommended that products offering value for money not only influence customer's choice behavior at the pre purchase phase but also affect their satisfaction, intention to recommend and return behavior at the post purchase phase (Dodds, Monroe and Grewal 1991; Parasuraman and Grewal 2000; Petrick 2001). Perceived product quality is often defined as the perceived ability of a product to provide satisfaction relative to the available alternatives (Monroe and Krishnan, 1985). More broadly, perceived product quality can be defined as 'the customer's perception of the overall quality or superiority of a product with respect to its intended purpose, relative to alternatives' (Aaker, 1991, p. 87). In this study, product quality is defined as the degree of how well the product specification fits the customer's expectation. If people think the product specification fits their need, they will be more likely to think the transaction is worthy. In the era of service economy, how to meet customers' expectations and to measure customers' satisfaction turns to be the locus of value creation (Gorst et al., 1998; Kristensen et al., 1992; Parasuraman et al., 1988).

### *2.2 Service Quality*

Service quality is the gap between what the customers want and what they actually get or perceive they are getting (Berry et al., 1988). Consequently, many companies would attempt to offer a high service quality in order to retain their customers. It has been empirically proved that high service quality motivates positive customer behavioral intention to repurchase, and in turn, promotes customer retention (Zeithaml et al., 1996). This implies that service quality is linked positively to customer loyalty. Actually, many studies have shown that quality is indirectly linked to repurchase intention and customer loyalty through customer perceived value (i.e. Yu et al., 2005; Anderson and Sullivan, 1993). A related theory to customer satisfaction that has been adapted by Bartlett and Han (2007) in customer satisfaction is the SERVQUAL model by Parasuraman, Zeithaml & Berry(1991). This model indicates that there are five dimensions used in measuring customer service quality. The dimensions included in this model are tangibles, reliability, responsiveness, empathy and assurance. The tangibles include the physical appearance of the facilities, equipment, personnel and materials used to communicate with customers. Elements within the tangibles dimension are cleanliness, space, atmosphere, appearance of server and location. Measuring element of responsibility and reliability are speed, willingness to respond, accuracy and dependability. The dimension of assurance and empathy may be measured using elements of knowledge, trained professional, communications and caring. Other models that have been used to evaluate service quality are DINESERVE by Stevens et al (1995), Two-

Way by Schvaneveldt, Enkawa and Miyakawa (1991), SERVPERF by Corin and Taylor (1992), Normed Quality by Teas (1994) and QUALITOMETRO by Franceschini and Rossetto (1997). With reference to this study, Service quality means that the degree of how well the service delivery meets their needs. People generally believe that the more customer satisfaction the more value customers perceive (Anderson et al., 1994; Saravanan & Rao, 2006; Westlund et al., 2005; Zeithaml, 2000).

### *2.3 Contextual Experience*

Contextual Experience is a measure of the overall level of customer satisfaction with a vendor and the quality of experience a person has while interacting with a specific design. Experiences are like goods and services that they have their own distinct characteristics that customers judge to be worth the price. According to Mitchell (2003), the marketers use brand experience in three different ways. First, it relates to the product itself, and is mainly concerned with quality of the product. The second dimension of brand experience is the experience of dealing with customer services. The third dimension of brand experience is the experience the marketers sell. Prahalad and Ramaswamy (2004) also advocate that the next practice in value creation is the co-creation experience between the firm and customer, thus the processes of value creation are rapidly shifting from a product- and firm-centric view to personalized consumer experiences. Experience can offer higher value because it is personal and memorable. An experience economy has also emerged in many areas such as Disney and Nike in the entertainment sector, and Starbucks in the retailing sector. The above examples all assume that a memorable experience becomes one of the major determinants of customer perceived value. The importance of customer–employee interaction in the restaurant industry is magnified because of the high level of contact the employee has with the customer for the duration of the dining experience.

Organizational culture has a significant impact on customer experience, which in turn could affect customers' behavioral intentions (Davidson, 2003). In this study, the purpose is to investigate the value created by experiences. In the retailing sector, we will especially focus on the contextual (memorable) experience in general and use Pine and Gilmore's keyword 'memorable' as the distinction of the experience. Contextual experience is thus viewed as the degree of how well the contextual atmosphere can be impressed and memorized after the consumption.

### *2.4 Customer perceived value*

Customer perceived value is the benefits perceived from the customer's point of view, which is a subjective evaluation of product attributes, performance and the consequences of using that product (Woodruff, 1997). The concept of perceived value has recently gained its importance and wide popularity in the business environment because of its effect on consumer behavior and providing strategic implications for the success of companies. Hence, perceived value is claimed to be a major tool to help the service provider to gain a better competitive position in the market (Woodruff 1997; Parasuraman 1997; Huber, Herrmann and Morgan 2001; Naumann 1995; Stahl, Barnes, Gardial, Parr and Woodruff 1999). As such, Olshavsky (1985) notes that an important key to understanding a consumer's perceived value of a brand are to determine a reason for purchase. In marketing, value is assessed from a consumer's perspective (Zeithaml, 1988; Patterson and Spreng, 1997), and is the key link between the cognitive elements of perceived quality or performance, perceived monetary sacrifice and behavioural intentions (Patterson and Spreng, 1997). Perceived quality is tied to both performance and perceived sacrifice (Patterson and Spreng, 1997). In this way, value has a multidimensional character which includes quality perception, price perception, brand loyalty, familiarity and perceived risk (Monroe and Krishnan, 1985; Buzzel and Gale, 1987; Zeithaml, 1988; Cronin *et al*, 2000; Caruana and Fenech, 2005; Harcar *et al*, 2006). In this study, customer perceived value is defined as the degree of how well the benefits felt. Value in mind is further hypothesized to affect the preferences and, finally, preferences affect the intention to be a customer.

### *2.5 Preferences & Future Intention*

Preference is a positive feeling and can be viewed as the degree of how well an individual likes to consume. The Reasoned Action Theory (Fishbein & Ajzen, 1975) supports the hypothesized relationships between perceptions, attitudes and intention behaviour. To predict people's intention behaviour, a widely studied Theory of Reasoned Action (TRA) is used. In this theory (Fishbein & Ajzen, 1975), intention behaviour is influenced by beliefs and attitudes. Beliefs are defined as subjective perceptions of the consequence if an individual consumes the product. According to TRA, beliefs may further influence attitude that is defined as feelings in mind about the consumption. Moreover, Zeithaml (1988) found the relationship between quality and purchase also affects perceived value. For

example, if product cost or service quality is too high and consumers are unwilling to pay for it, its value will not be perceived. Alternatively, if a purchase is of lower quality it may still satisfy if the price is commensurately affordable (which compensates for higher value) resulting in perception of value among consumers (Zeithaml, 1988). In this study it is asserted that if perceived quality is high then intention to purchase is high. In this study, customer perceived value is defined as the degree of how well the benefits felt.

### **3. Theoretical Frame work**

This study relies on four theoretical frameworks used or suggested in previous research. The Reasoned Action Theory (Fishbein & Ajzen) supports the hypothesis regarding the relationships between perceptions, attitudes and intention behavior. The experience economy suggested by Pine and Gilmore, 1999 supports the categorization of people's perception of values into product quality, service satisfaction and memorable experience. Finally, the concept of one to one marketing (Peppers and Rogers, 1993, 2005; Peppers et.al., 1999) provides the rationale to investigate the individual differences in value perception of experience.

### **4. Research Objectives**

The research was conducted with a major objective of studying the impact of product quality, service quality and contextual experience on customer perceived value and intention. The research had the following specific objectives.

To study the impact of product quality on customer perceived value.

To study the impact of service quality on customer perceived value.

To study the role of contextual experience and its impact on customer perceived value.

To analyze the impact of customer perceived value on the customer preferences and intention to shop in future.

#### *4.1 Research Model*

Based on the arguments presented, the basic research model (Figure 1) is proposed linking product quality, service quality, contextual experience and purchase intention. The model has product quality, service quality and contextual experience linked to perceived value which in turn is an antecedent to the dependent variable purchase intention. The preference of the customers is taken as a mediating variable between perceived value and purchase intention.

### **5. Methodology**

The research design used in the study is survey design and nature of study is explanatory which takes in to consideration product quality, service quality and contextual experience as independent variables and customer perceived value, preferences and future buying intention as dependent variables.

This study was conducted among 205 customers of Cocoa Tree, a national retailer chain. We selected one specific consumption experience, drinking coffee at Cocoa Tree as the source of responses. The main reasons to support this design are, first, the coffee industry is one of the industries affected by an experience economy (Pine and Gilmore, 1999). Secondly, a common behavior, such as coffee consumption is easier to explore with individual differences. Cocoa Tree is the Coffee Shop outlet and is also one of the popular hangouts. It promises the customers in providing a unique experience. However, it also faces stiff competition from other outlets including Café Coffee Day, Coffee Beans etc. Hence it is important to study the impact of product, service and contextual experience on customer value and purchase intention. This will help in attaining competitive advantage and customer patronage.

The data was collected using a modified version of instrument developed by Yu and Fang (2009) in the city of Taiwan among the customers of Starbucks Coffee Shops. The modified questionnaire was revalidated in the Indian context. The questionnaire items include background information, product quality, service satisfaction, contextual experience, preference and intention, along with which some open ended questions were also included. For each item, a list of five-point Likert scales, with disagree completely (1) – agree completely (5) endpoints were assigned. Quantitative analysis only represents the numerical relationship. To get more insights into customers' perception, two open questions were asked: 'Please describe 1–3 characteristics on what you like and dislike most while consuming in Cocoa Tree?' The results will play as a complement in interpretation of those numerical findings. The researcher distributed 220 questionnaires to the customers who agreed to participate and 205 filled questionnaires were collected back from the customers of Cocoa Tree. Thus, the final data set had 205 usable records from

customers. Out of 205 customers 101 male respondents were there and female respondents counted to 104. 74% of the total respondents belonged to the age group of 15 – 35 and the remaining 26% belonged to the age group of 36 – 55 years.

## 6. Data Analysis

### 6.1 Evaluation of the model with Structure Equation Model (SEM)

The Impact of Product Quality, Service Quality and Contextual Experience on Customer Perceived Value and Future Buying Intentions were investigated using structural equation modeling (SEM). A structural model can be viewed as simultaneous linkages that allow a researcher to determine the relative strength of relationships between variables. Relationships between Product Quality, Service Quality and Contextual Experience on Customer Perceived Value and Future Buying Intentions were displayed in the Figure 2. The overall fit of a model can be assessed using a number of fit indices. There is broad consensus that no single measure of overall fit should be relied on exclusively and a variety of different indices should be consulted (Tanaka, 1993). The indices used include Chi-square ( $\chi^2$ ), Goodness of Fit Index (GFI) (Joreskog and Sorbom, 1989), Non-normed Fit Index (NNFI) (Bentler and Bonett, 1980), Comparative Fit Index (CFI) (Bentler, 1990) and Root Mean Squared Residual (RMSR), Root Mean Square Error of Approximation (RMSEA). Exhibit shows major fit measures and guidelines for their acceptable values.

As seen, all the variables under study are extremely fit with the values of the indicator on the higher side of the fit model indices. This was followed by the testing of the structural model of the theoretical links which are proposed to the dimensions. This second order model implies that the three dimensions shows another latent construct, called perception of the customer which in turn explains the relationship among the dimensions of dependent and independent variables. (Figure 3)

First it is evident that there are three direct relationships between the product quality, service quality and the conceptual experience on the perceived value. In the result it is shown that conceptual experience influences more than the product quality and service quality. This can be deduced by the regression weights of the relation between conceptual experiences (0.386) is much more than the relationship of product quality (0.271) and service quality (0.071). Further analyses of the result show that all the direct relationship has significant influence as the significance value are lower than permissible value (0.05). The result of structural equation modeling shows that the influence of perceived quality on the preference of the customer is significant as the regression weights are high (.759). This preference influences the customer intention to by the product or avail the services as the regression weights for the direct relationship of preference of the customer to the customers intention to purchase the product.

As most of the values given in the table fall within good fit and moderate fit range, the model is acceptable. Thus we can interpret that product quality; service quality and experience quality have a positive impact on Perceived value which in turn has a positive influence on Customer preference and Future Intention. Table 1 showing regression weights as per the analysis done with SEM, Product quality and experience quality have a significant impact on Perceived value since they have a significant value < 0.05. Service quality doesn't show a significant value with a significant value of 0.865 Also, Perceived value has a significant influence on Preference as the significant value is 0.000 which is < 0.05 and Preference has a significant positive influence on future intention with a significant value of 0.000 which is less than 0.05.

## 7. Conclusion

This study was conducted with an aim to find the relationship of quality variables such as product quality, service quality and contextual experience with customer perceived value. The main objective was to gain a deeper insight on major factors influencing customer perceived value which in turn influences preference and future buying intentions in the case of a coffee shop. This study reveals the relative impacts of determinants of perceived value and how much each of them contributes which can help companies in attaining a competitive edge over other competitors and also achieve customer patronage. In today's world of intense competition, satisfying customers is only the base line and may not be sufficient for survival. Management should focus on gaining customer loyalty by enhancing customer perceptions of service quality, product quality and contextual experience. Although previous studies have addressed the importance of service quality, product quality and contextual experience, the precise nature of the relationships that exist between these constructs and the understanding of their effect on customer's future buying intention was analyzed in this research article. It is found that contextual experience influences

perceived value more than the product quality and service quality. For any industry which survives on specific consumption experience, assuring contextual experience is one way of getting competitive advantage. The regression weights of this empirical study further explains that product quality has got higher impact on perceived value compared to service quality. Further analysis, proving all the three direct relationship has significant influence on customer's future buying intention suggests that organizations should focus on programs which will ensure contextual experience, product quality and service quality, to attract and retain the right customers, so that firms may remain solvent and profitable. Future studies may also investigate more potential factors determining perceived value, such as price, location and branding as suggested from the qualitative data in this study. Also future studies can be conducted on impacts of other kinds of experience quality such as participation, control, familiarity etc as this study deals only with contextual experience.

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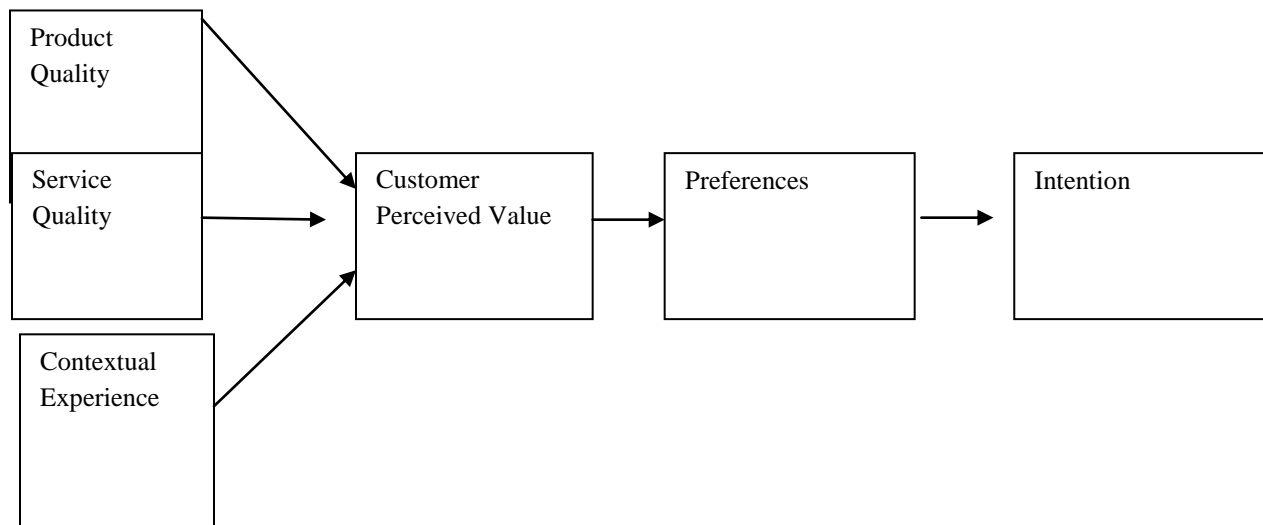


Figure 1 showing the basic research model proposed by the researcher

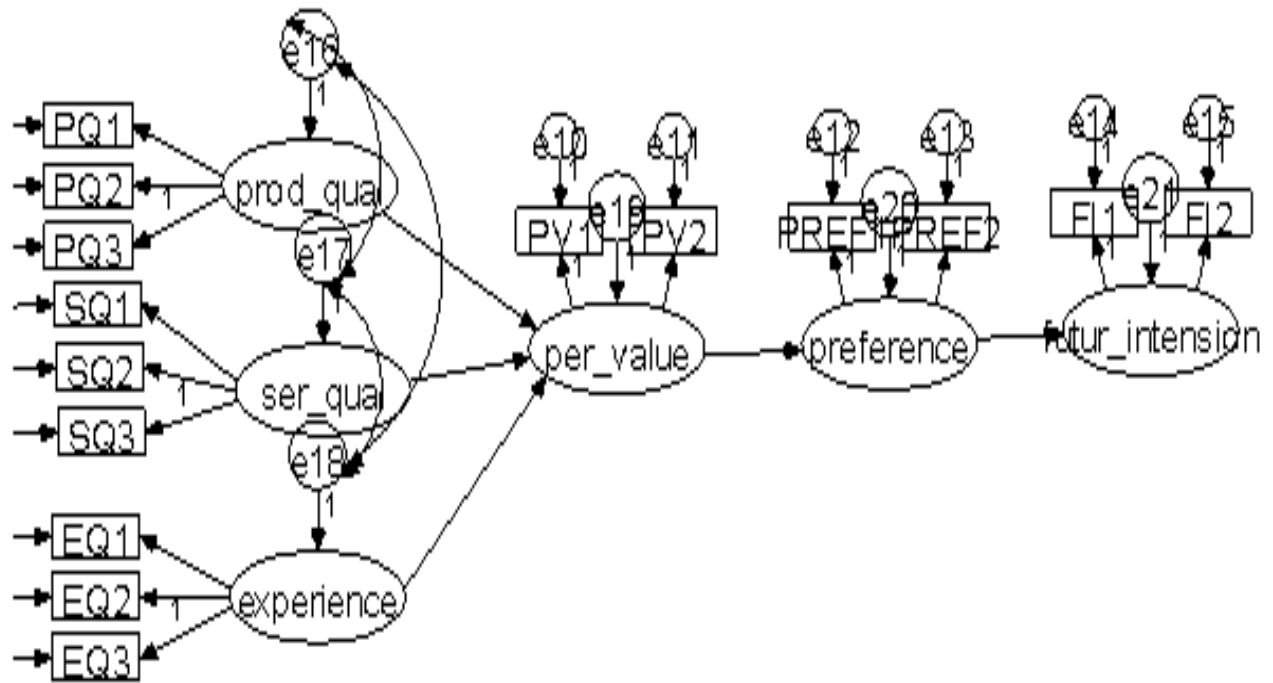


Figure 2 showing the structural equation modeling structure



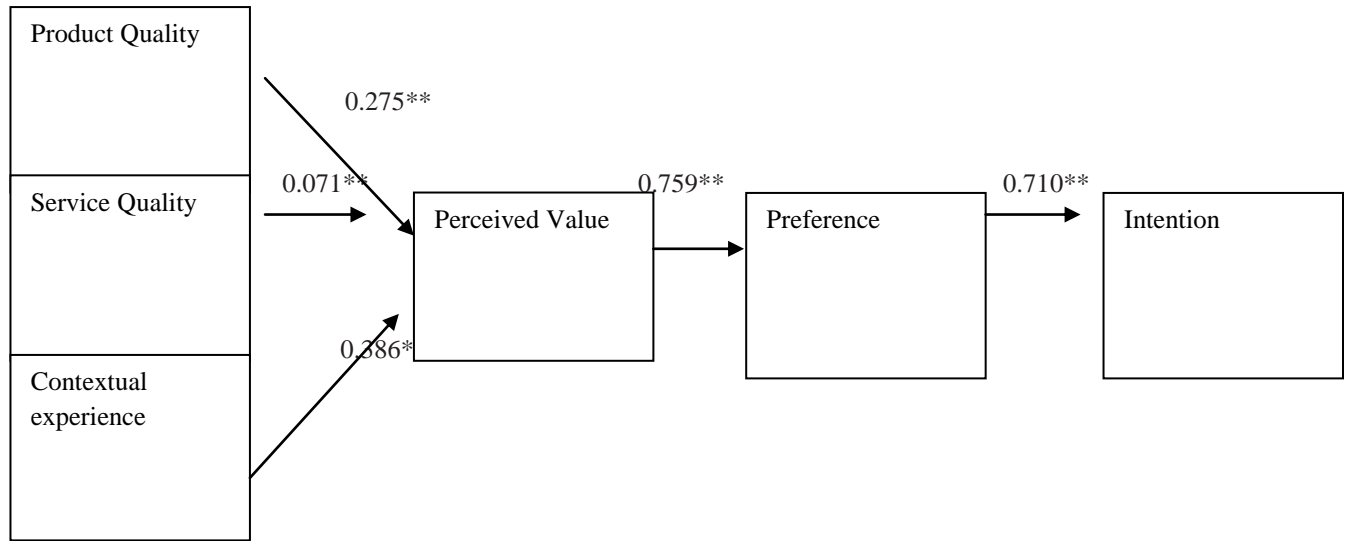


Figure 3 showing the regression weights in structural equation modeling

Indicators	Values	Fitness
Normed Chi-square	2.421	Very Good
GFI	0.886	Moderate
AGFI	0.833	Very Good
CFI	0.940	Very Good
RMSR	0.043	Very Good
RMSEA	0.083	Moderate

Table 1 showing fit indicators of structural equation modeling

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