The Effect of Customer Relational Benefits on Value Perceptions in Services

by

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ABSTRACT

As competition intensifies, products and services become more homogeneous and the market matures making it difficult for firms to differentiate and compete effectively. As a result, firms are forced to seek other ways to compete. An effective competitive tool in marketing practice is to endure in a relationship with the customers. The relationship between the firm and its customers enables firms to differentiate from its competitors since the relationship is unique and difficult to duplicate. Also, advances in technology have enabled firms to understand and target its customers more effectively by providing services that are tailored to the customer needs. Therefore, benefits of engaging in a relationship from the firms perspective is to gain a more competitive advantage.

The effect of relationship marketing between the firm and the customer is receiving more attention in marketing and for a relationship to exist, both the firm and the customer must benefit. However, research has focused primarily on the relational benefits from the firm's perspective and research is still needed from the customer's perspective. From the customer's perspective, three distinct types of relational benefits have been identified, confidence, social, and special treatment benefits. Confidence benefits are psychological benefits customers receive that indicate that there is often comfort or feeling of security. Social benefits are the

result of some kind of association with the employees and special treatment benefits are benefits customers receive that are not normally available to customers.

The aim of this study was to examine the direct and indirect effects of the dimensions of perceived relational benefits on consumers' perceptions of service value and purchase intention. The indirect effects of perceived relational benefits on consumers' perceptions of service value and purchase intention was examined by incorporating consumers' perceptions of price and reference price into the study. Perceived service quality was also incorporated into this study and was considered to act as a mediating variable between perceived price and perceived service value.

Analysis of the data comprised of two main techniques, exploratory factor analysis and structural equation modelling. Exploratory factor analysis was employed to serve as a data reduction technique and the reliability of the scale was assessed using Cronbach's alpha coefficient test. Structural equation modelling was employed using the two step approach recommended by Anderson and Gerbing (1988). For each measurement model the reliability and validity were assessed and for the overall structural model the individual paths were assessed. The findings of this study revealed that not all types relational benefits are relevant in influencing consumers' perceptions of service value. Social benefits were found to be the only significant relational benefit that has a direct effect on consumers' perceptions of service value. As for the indirect effect, social and special treatment benefits were found to have a significant indirect effect on consumers' perception of service value. Confidence benefits were found to be insignificant in both direct and indirect effects on consumers' perception of service value. The findings also indicated that perceived service quality is insignificant in the study.

The findings have both academic and managerial implications. Academically, the study has extended the extant relationship marketing and pricing literature by examining the direct and indirect effects of perceived relational benefits on consumers' perceptions of service value and purchase intention. However, this study only provides some introductory insights of this research area and the results are still preliminary. Thus, more research is needed to understand the importance of the different relational benefits. Managerially, it is important for service marketers to be aware of the importance of relational benefits customer receives as the outcome of positive relationships may result in customer loyalty, positive word of mouth, relationship continuance, and customer satisfaction. In addition, relational benefits may be used as a means of differentiating amongst competitors and social benefits is particularly useful as a differentiation strategy because it is difficult to replicate.

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CHAPTER 1 INTRODUCTION

1.1 INTRODUCTION

This chapter serves to provide a general introduction and overview of the study. Section 1.2 discusses the background of the study. Section 1.3 addresses the research problems and questions and Section 1.4 presents the research objectives of the study. Section 1.5 presents the justification of the research and the organisation of the thesis is presented in section 1.6.

1.2 BACKGROUND OF THE STUDY

As competition intensifies, products and services become more homogeneous and the market matures making it difficult for firms to differentiate and compete effectively. As a result, firms are forced to seek other ways to compete. An effective competitive tool in marketing practice is to endure in a relationship with the customers (Reichheld and Sasser, 1990; McKenna, 1991; Reichheld, 1993; Evans and Laskin, 1994). The relationship between the firm and its customers enables firms to differentiate from its competitors since the relationship is unique and difficult to duplicate. Also, advances in technology have enabled firms to understand and target its customers more effectively by providing services that are tailored to the customer's needs (Barnes, 1994; Berry, 1995). Therefore, benefits of engaging in a relationship from the firms perspective is to gain a more sustainable competitive advantage.

For a relationship to exist, both the firm and the customer must benefit (Czepiel, 1990; Gronroos, 1990; Barnes, 1994; Bitner, 1995; Berry, 1995; Gwinner, Gremler, and Bitner, 1998). However, prior research has focused primarily on the relational benefits from the firm perspective (Reichheld and Sasser,1990; McKenna,

1991; Reichheld, 1993; Evans and Laskin, 1994). More research on relational benefits from the customer perspective is needed (Berry, 1995; Bitner, 1995; Sheth and Parvatiyar, 1995; Gwinner, Gremler, and Bitner, 1998; Reynolds and Beatty, 1999). It has been suggested that risk reduction is one of many reasons why customers engage in a relationship with the service provider (Berry, 1995; Bitner, 1995; Gwinner, et al., 1998). Customers will desire to be in a relationship with the service provider when the service delivered is perceived to be continuous, personally important, variable in quality, high in involvement, and/or complex in nature (Berry, 1995). Other reasons include preferential treatment and the development of some kind of association such as a feeling of familiarity, personal recognition, and friendship (Gwinner, et al., 1998). The increasing recognition of the potential benefits to both the firm and the customer is receiving more attention (Berry, 1995).

Unlike relational benefits the price charged by a service provider is a highly visible marketing variable and it is the means by which the firm extracts revenue. In addition, price is an important cue consumers use to evaluate a service and price plays a significant role in influencing consumer's purchasing behavior. Price has different roles in consumer's evaluation process. It can act as an indicator of the monetary sacrifice to acquire the product or service and an indicator of quality (or benefits). However, with the absolute differences that exist between products and services, consumers will find it difficult to evaluate services because of the unique characteristics services possess (Zeithaml, 1981; Brown and Fern, 1981; Zeithaml and Bitner, 1996). For instance, when consumers use price to evaluate a service and a product, consumers will find it more difficult to evaluate a service than that of a product because services are performances or experiences that are intangible, unlike products. In addition, services are performances that are frequently produced by

humans. And so, no two customers are alike since each will have unique demands or experience the service in a unique way (Zeithaml and Bitner, 1996). To better understand how price is used in consumers purchasing behaviour, it is important to understand how price is perceived. However, prior research in pricing primarily focused on consumer evaluations of products (Dodds and Monroe, 1985; Monroe and Krishnan, 1988; Zeithaml, 1988; Rao, 1989; Monroe, 1990; Dodds, Monroe, and Grewal, 1991; Chang and Wildt, 1994; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000) and there is a lack of research that examines services. Therefore, much of the pricing literature was heavily focused on consumer products.

Hong Kong is recognised as a service based economy. In 1998, Hong Kong service industries contributed over 85% to GDP and the population and employment in the service industries accounted for 91.3% (Consensus and Statistics Department of the Government of the HKSAR, 1999).

1.3 RESEARCH PROBLEMS AND QUESTIONS

In services marketing there is often no separation between production, delivery, and consumption, thus service encounters or the interaction between the customer and the marketer must be considered as part of the marketer's tasks. Service encounters or the "moments of truth" plays an important role for both the customer and the marketer. From the customer perspective, it enables customers to receive a snapshot of the service quality of the service provider and provides useful information to assess the overall quality of the service provider, which is critical in determining their satisfaction, loyalty, and willingness to use the service provider. From the firm perspective, it provides an opportunity for the service provider to

prove its potential as a quality service provider and to increase customer loyalty. Lovelock and Wright (1999) suggested that in all types of services, understanding and managing service encounters between customers and service personnel is central to creating satisfied customers who are willing to enter into long term relationships with the service provider. Therefore, enduring in a relationship has become an important task for all marketers to compete more effectively in a competitive market environment.

As mentioned earlier, for a relationship to exist, both the firm and the customer must benefit. It is crucial for marketers to identify the motives of why customers engage in a relationship as well as understanding their basic needs. Customers may engage in a relationship to reduce risk, to simplify purchasing behaviour, to reduce their evoked set, and/or to receive preferential treatment such as price discounts. Many reasons can be given to answer why customers may engage in a relationship, but it is important for marketers to identify the reasons and recognise the benefits customers receive when they engage in a relationship to enable them in making better marketing decisions and to target their customers effectively. However, prior research on relational benefits has focused primarily on the firm perspective (Reichheld and Sasser, 1990; McKenna, 1991; Reichheld, 1993; Evans and Laskin, 1994). These relational benefits include increasing customer retention rates, increasing customer satisfaction and customer loyalty, increasing efficiency, and reducing costs. Also, the outcome of these benefits enables firms to gain a more competitive advantage as well as increasing the profitability and market share of the firm (Reichheld and Sasser, 1990; McKenna, 1991; Reichheld, 1993; Evans and Laskin, 1994). Examination on customer perspective has received little attention (Berry, 1995; Bitner, 1995; Sheth and Parvatiyar, 1995; Gwinner, Gremler, and

Bitner, 1998; Reynolds and Beatty, 1999). Therefore, investigations into customer relational benefits are needed to provide a better understanding on why customers engage in a relationship as well as understanding their purchasing behaviour.

Furthermore, the marketing of services is generally viewed as a more complex process when compared to consumer goods and products. With the absolute differences that exist between products and services, consumers will find it difficult to evaluate services because of the unique characteristics services possess (Zeithaml, 1981; Brown and Fern, 1981; Zeithaml and Bitner, 1996). And so, the marketing solutions of goods and products may not always be transplanted to situations involving services. However, prior research in pricing has mainly focused on consumer products (Dodds and Monroe, 1985; Monroe and Krishnan, 1988; Zeithaml, 1988; Rao, 1989; Monroe, 1990; Dodds, Monroe, and Grewal, 1991; Chang and Wildt, 1994; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000) and there is a lack of research that examines services. Therefore, research is needed to extend the existing pricing theory of consumer products to services.

1.4 RESEARCH OBJECTIVES

The aim of this study is to examine the direct and indirect effects of the dimensions of perceived relational benefits on consumers' perceptions of service value and purchase intention. The indirect effects of perceived relational benefits on consumers' perceptions of service value and purchase intention is examined by incorporating consumers' perceptions of price and reference price into the study. In addition, perceived service quality will be considered in this study and is considered to act as a mediating variable between perceived price and perceived service value.

However, the main focus of the study is to examine the direct and indirect effects of the dimensions of perceived relational benefits on consumers' perceptions of service value and the role of perceived service quality is only peripheral. Nevertheless, perceived service quality is also examined to test whether it acts as a mediating variable. Therefore, the research objectives of the study is to:

(a) investigate the direct effect of the dimensions of perceived relational benefits on consumers perception of service value;

(b) investigate the indirect effect of the dimensions of perceived relational benefits on consumers perception of service value through their perceptions of price; and

(c) investigate the indirect effect of the dimensions of perceived relational benefits on consumers' perception of service value through their perceptions of service quality.

1.5 JUSTIFICATION FOR THE RESEARCH

Prior research in pricing primarily focused on consumer evaluations of products (Dodds and Monroe, 1985; Monroe and Krishnan, 1988; Zeithaml, 1988; Rao, 1989; Monroe, 1990; Dodds, Monroe, and Grewal, 1991; Chang and Wildt, 1994; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000) and it is only recently studies have been further investigated to examine services (Ostrom and Iacobucci, 1995; McDougall and Levesque, 2000). However, research in this area is still needed. Therefore, this study merits on examining services.

Also, Hong Kong is recognised as a service based economy with service industries contributing over 85% to GDP (Consensus and Statistics Department of

the Government of the HKSAR, 1999). Therefore, conducting research in HK contributes to the existing marketing literature. Furthermore, prior research in pricing and relational benefits has been investigated in western countries. However, it is important to investigate whether the findings of these studies are applicable in a non-western country. Thus, examining the generalisabilty of the results. This study is conducted in Hong Kong, a non-western country. And so, also merits in examining whether the research findings from western countries are applicable in a non-western country.

Prior research on consumers' perception of value has been limited to examining the effects of product quality and sacrifice (Dodds and Monroe, 1985; Monroe and Krishnan, 1985; Zeithaml, 1988; Rao, 1989; Monroe, 1990; Dodds, Monroe, and Grewal, 1991; Chang and Wildt, 1994; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000). However, when considering services, relationship marketing also plays an important role (Gronroos, 1990). In services, there is often no separation between production, delivery, and consumption, thus service encounters or the interaction between the customer and the marketer must be considered as part of the marketer's tasks. This task can often be fulfilled in a relationship with the customer. Furthermore, the interest of relationship marketing between the firm and the customers are receiving more attention in marketing (Reichheld and Sasser, 1990; Reichheld, 1993; Bagozzi, 1995; Berry, 1995; Bitner, 1995; Peterson, 1995; Sheth and Parvatiyar, 1995; Bendupundi and Berry, 1997; Gronroos, 1997; Gwinner, Gremler, and Bitner, 1998; Reynolds and Beatty, 1999) and for a relationship to exist, both the firm and the customer must benefit (Czepiel, 1990; Gronroos, 1990; Barnes, 1994; Bitner, 1995; Berry, 1995; Gwinner, Gremler, and Bitner, 1998).

However, prior research on relational benefits has focused primarily on the firm perspective (Reichheld and Sasser, 1990; McKenna, 1991; Reichheld, 1993; Evans and Laskin, 1994). It is only recently studies have examined the relational benefits from the customer perspective (Berry, 1995; Bitner, 1995; Sheth and Parvatiyar, 1995; Gwinner, Gremler, and Bitner, 1998; Patterson, 1999; Reynolds and Beatty, 1999). Although relational benefits from the customers perspective is receiving more attention, it is still in its early stages of development (Sheth and Parvatiyar, 1995; Reynolds and Beatty, 1999) and calls have been made for further investigations into customer relational benefits (Berry, 1995; Bitner, 1995; Sheth and Parvatiyar, 1995; Gwinner, Gremler, and Bitner, 1998; Reynolds and Beatty, 1999). Gwinner et al. (1998) were amongst the first researchers to empirically investigate the types of relational benefits customers receive and suggested that customer relational benefits can be categorised into three types: confidence, social, and special treatment benefits. These authors provided some preliminary findings on the types of relational benefits customer receive and specifically call for causal research on the customer relational benefits.

Now since my research is focused on customer relational benefits and applies causal research, the study contributes to the existing relationship marketing literature. Also, investigating the effects of relational benefits on consumer's value perceptions for services is useful. In particular, I examine the effects perceived relational benefits have on consumer's perception of value directly and indirectly via reference price, perceived price, and perceived sacrifice. This is the major contribution of my study to the existing relationship marketing and pricing literature because no research has investigated the link between relational benefits and consumers value perception for products or services. Therefore, this study has merit

in providing some preliminary insights on how customer relational benefits effect consumers perception of service value.

The concept of reference price and the effects it has on brand choice have been well documented in both experimental work and in research that uses behavioural records (e.g., scanner panel data). However, most of the reference price research has focused on consumer products and relatively few empirical studies conducted on services. This study incorporates reference price and other aspects of pricing to provide a better understanding on how it effects consumers perception of service value. Therefore, the study extends the current reference price literature by examining services. Thus, there is a contribution to both the pricing and services marketing literature.

1.6 ORGANISATION OF THE THESIS

The thesis is organised into seven chapters. This chapter provided an introduction of the study. Chapter two reviews the literature to discuss the constructs in the study and is used to provide theoretically background to support the next chapter, hypotheses development. Chapter three presents the conceptual model and provides theoretical support to the hypothesised relationships among the constructs in the study. Chapter four describes the methodology used in the study and details on the research design, operationalisation of measures for the constructs, sample selection and method of data collection, methods of data analysis, and limitations of the research methodology is discussed. Chapter five and six presents the results of the data analysis for the pilot study and main study, respectively. Finally, chapter seven provides a discussion on overall evaluation of the research objectives,

summary of the findings, contributions, limitations, and implications of the study for theory and practice, conclusions of the study, and suggestions for future research.

CHAPTER 2 LITERATURE REVIEW

2.1 INTRODUCTION

This chapter serves to review the relevant literature of the research constructs to provide the theoretical background of the researched constructs. These constructs are discussed individually except for reference price and perceived price, which are discussed together. Section 2.2 presents the concept of relationship marketing and the benefits of engaging in a relationship. Section 2.3 discusses consumers' perceptions of service value. Section 2.4 examines consumers' price perceptions and reference prices. Section 2.5 presents consumers' perceptions of sacrifice. Section 2.6 reviews the perceived service quality. Purchase intentions is presented in Section 2.7.

2.2 RELATIONAL BENEFITS

2.2.1 Relationship Marketing

Relationship marketing (RM) has been hailed as a new paradigm of marketing (Gronroos, 1994; Sheth and Parvatiyar, 1995; Aijo, 1996) due to the maturation of services marketing, advancing technology, and increasing recognition of the potential benefits to both firm and the customer (Berry, 1995). Furthermore, intensified competition (often global), more fragmentation of markets, more demanding customers, and rapidly changing customer buying patterns have also been suggested as reasons to changes in the nature of marketing and the emergence of RM (Buttle, 1996).

As competition intensifies, products and services become more homogeneous and the market matures making it difficult for firms to differentiate and compete effectively. As a result, firms are forced to seek other ways to compete. An

effective competitive tool in marketing practice is to endure in a relationship with the customers (Reichheld and Sasser, 1990; McKenna, 1991; Reichheld, 1993; Evans and Laskin, 1994). The relationship between the firm and its customers enables firms to differentiate from its competitors since the relationship is unique and difficult to duplicate. Thus, provides a unique and sustainable competitive advantage. Also, advances in technology have enabled firms to understand and target its customers more effectively (Barnes, 1994; Berry, 1995).

The concept of RM was first introduced in the services marketing literature in a 1983 paper by Berry (Barnes, 1994; Gronroos, 1994; Berry, 1995; Buttle, 1996). Berry (1983) defined RM as "attracting, maintaining and in multi-serivice organisations enhancing customer relationships". At the same time, Gronroos (1990) showed that one of the central characteristics of services marketing (inseparability) gave rise to the notion of RM. In service marketing there is often no separation between production, delivery, and consumption, thus the interaction between the buyer and seller must be considered as part of the marketer's tasks. This task can often be fulfilled in a relationship with the customer, which surprisingly enough has been ignored in the traditional marketing literature.

The service encounters or the interaction between the customer and the marketer plays an important role for both the customer and the marketer. From the customer perspective, it enables customers to receive a snapshot of the service quality of the service provider and provides useful information to assess the overall quality of the service provider, which is critical in determining their satisfaction, loyalty, and willingness to use the service provider. From the firm perspective, it provides an opportunity for the service provider to prove its potential as a quality service provider and to increase customer loyalty. Lovelock and Wright (1999)

suggested that in all types of services, understanding and managing service encounters between customers and service personnel is central to creating satisfied customers who are willing to enter into long term relationships with the service provider.

The development of this new concept in service marketing was later incorporated as part of the so-called Nordic School of Services. The main roles and contribution of the so-called Nordic School of Services and of Nordic authors is to help extend the notion of RM from service marketing to general marketing to the point of redefining relationship marketing as the new marketing paradigm. Building on Berry's (1983) definition, Gronroos (1990) defined RM as "marketing to establish, maintain and enhance relationships with customers and other parties at a profit so that the objectives of the parties involved are met. This is achieved by mutual exchange and fulfilment of promises". This definition attempts to incorporate both the transactional and the relational qualities of marketing. Also, the notion of promises – that service relationships are achieved by "mutual exchange and fulfilment of promises" (Gronroos, 1990) is a fundamental part of RM. The making, enabling, and keeping of promises is the essence of a mutually beneficial service relationship and is essential to attract and build relationships (Bitner, 1995).

Recently, Gronroos (1997) suggested that relationships between a firm and its customer do not necessarily always exist and that either part may not want or have a relationship with the other part. Therefore, the question is not whether a relationship is possible but whether a relationship is beneficial in the exchange process. This will depend on certain factors, which includes the nature of the product, the market situation, the needs and wishes of the customers, and the competitive situation. From this, Gronroos expanded his definition to redefine RM

as "the process of identifying and establishing, maintaining, enhancing, and when necessary terminating relationships with customers and other stakeholders at a profit so that the objectives of all parties involved are met where this is done by a mutual giving and fulfilment of promises".

Although the contribution of Gronroos' work on RM has mainly been in the service marketing context, an expansion of the concept is emerging to cover marketing in general (Aijo, 1996). The focus of interest is to deepen and develop the concept of RM further as well as testing it empirically by applying it to various areas of marketing and various industries (Aijo, 1996). Many attempts have been made to try to define RM in terms of what is perceived as its key conceptualisations and what constitutes RM (Evans and Laskin, 1994; Harker, 1999). However, lack in establishing a basic foundation on the meaning of RM have and will continue to create many obstacles in future research (Harker, 1999). Therefore, Harker (1999) attempted to examine the current RM definitions to establish areas of conceptual "agreements" on the definitions of RM.

Harker's (1999) study involved reviewing 26 definitions of RM and qualitatively investigating which of the definitions best represents RM. His findings supported that the definition presented by Gronroos (1997) fits best in terms of coverage of the underlying conceptualisations of RM and its acceptability in the RM literature. He also suggested that Gronroos' (1997) definition of RM seems superior to the other definitions because of its developed awareness of the potential of relationship termination. Relationship termination has also become another stream of interest in research (Moorman, Zaltman, and Deshpande, 1992; Grayson and Ambler, 1999). These researchers suggest that as a relationship becomes more long term, it becomes prone to negative influences that dampen the positive impact of

relational factors, the "dark side" of RM (Moorman, Zaltman, and Deshpande, 1992; Grayson and Ambler, 1999).

2.2.2 Relational Benefits from the Firm Perspective

The interest of relationship marketing between the firm and the customer is receiving more attention in marketing (Reichheld and Sasser, 1990; Reichheld, 1993; Bagozzi, 1995; Berry, 1995; Bitner, 1995; Peterson, 1995; Sheth and Parvatiyar, 1995; Bendupundi and Berry, 1997; Gronroos, 1997; Gwinner et al., 1998; Reynolds and Beatty, 1999). Prior research on relational benefits has focused primarily on the firm perspective (Reichheld and Sasser, 1990; McKenna, 1991; Reichheld, 1993; Evans and Laskin, 1994). These relational benefits include increasing customer retention rates, increasing customer satisfaction and customer loyalty, increasing efficiency, and reducing costs. Also, the outcome of these benefits enables firms to gain a more competitive advantage as well as increasing the profitability and market share of the firm (Reichheld and Sasser, 1990; McKenna, 1991; Reichheld, 1993; Evans and Laskin, 1994).

For a relationship to exist, both the firm and the customer must benefit (Czepiel, 1990; Gronroos, 1990; Barnes, 1994; Bitner, 1995; Berry, 1995; Gwinner et al., 1998). However, examination on customer relational benefits has received very little attention and is still in its early stages of development (Sheth and Parvatiyar, 1995: Reynolds and Beatty, 1999). Therefore, calls have been made for investigations into customer relational benefits (Berry, 1995; Bitner, 1995; Sheth and Parvatiyar, 1995; Gwinner et al., 1998; Reynolds and Beatty, 1999).

2.2.3 Relational Benefits from the Customer Perspective

The types of relational benefits the customer receives have been conceptually discussed (Bagozzi, 1995; Berry, 1995; Bitner, 1995; Peterson, 1995; Sheth and Parvatiyar, 1995). However, relatively few empirical studies have been published that examine the types of relational benefits the customer receives. It is only recently that initial attempts at understanding the benefits customers receive when engaged in long-term relationships have been empirically investigated (Gwinner et al. 1998; Patterson, 1999; Reynolds and Beatty, 1999).

Gwinner et al. (1998) was amongst the first researchers to empirically examine the types of relational benefits customers receive. They defined relational benefits as "the benefits customers receive from long-term relationships above and beyond the core service performance". These researchers conducted two studies to identify the benefits customers receive from service relationships, involving an examination of a broad array of services such as hair salons, travel agency, medical services, financial services, repair maintenance. Their findings revealed that relational benefits could be categorised into three distinct types: confidence, social and special treatment benefits. Furthermore, results indicate that confidence benefit is more important than the other relational benefits, followed by social and special treatment benefits, respectively. Each type of relational benefits is discussed in more detail next.

Confidence benefits are psychological benefits customers receive that indicate that there is often comfort or a feeling of security in having developed a relationship with a service provider (Bagozzi, 1995; Berry, 1995; Bitner, 1995; Sheth and Parvatiyar, 1995; Gwinner et al., 1998; Reynolds and Beatty, 1999). According to Gwinner et al. (1998), confidence benefits are a feeling of reduced anxiety and a

development of trust and confidence in the service provider over time when the relationship is established. Berry (1995) suggested that risk reduction is a key outcome of the relationship. That is, many customers desire to be in a relationship with the service provider when the service delivered is perceived to be continuous, personally important, variable in quality, high in involvement, and/or complex in nature. Similarly, Bitner (1995) suggested that having a long-term relationship with a service provider can reduce stress especially for complex services, for services with high ego involvement, and for services that require large amount of monetary investment. As mentioned earlier, the importance of trust in the service provider or the keeping of promises by the service provider is essential to build relationships (Gronroos, 1990; Bitner, 1995). According to Bitner (1995), as the relationship becomes stronger, the consumer begins to build trust. As a result, the consumer can count on a consistent level of quality service and have a feeling of comfort in the relationship. Sheth and Parvatiyar (1995) argued that the primary reason why consumers engage in a relationship is to reduce choices. Their study draws on established consumer behaviour literature to suggest that consumer reduce their choices and engage in relational behaviour because they want to simplify their buying and consuming tasks, simplify information processing, reduce perceived risks, and maintain cognitive consistency and a state of psychological comfort. Bagozzi (1995), on the other hand, stated that this is probably not a pervasive motive. He argued the possibility that consumers may enter relationships in order to be able to fulfil goals to which they have earlier committed or tentatively committed. Goals may, of course, be of very different nature, such as profitability, cost reduction, comfort, health and self-esteem. Another reason he offers is the

possibility that some customers may sometimes feel that being involved in a relationship is an end in itself.

Social benefits are the result of some kind of association with the employees after having developed a relationship with a service provider (Berry, 1995; Bitner, 1995; Gwinner et al., 1998; Reynolds and Beatty, 1999). According to Gwinner et al. (1998), social benefits are a kind of fraternisation that often occurs between the customers and the employees. Furthermore, such an association can exist to the extent that describes a friendship. Similarly, Berry (1995) suggested that RM allows service providers to become more knowledgeable about the customers requirements and needs. The knowledge of the customer combined with social rapport enables the service provider to provide services that are tailored to the customer. Therefore, Berry (1995) suggested that social benefits include those feelings of familiarity, personal recognition, friendship, rapport, and social support. Bitner (1995) also provided a similar suggestion. She suggested that a service provider might actually become part of the consumer's social support system and may develop relationships resembling personal friendship, which are important to the consumer's quality of life. Barlow (1992) suggested that people are more fundamentally appealed when they are dealt with individually and Jackson (1993) suggested relationship marketing address the basic human need in feeling important.

Special treatment benefits are benefits customers receive that are not normally available to customers (Gwinner et al., 1998; Patterson, 1999). According to Gwinner et al. (1998), special treatment benefits can be received in terms of customisation and economic benefits. Customisation benefit can include the customer's perception of preferential treatment, extra attention or personal recognition, and special service not available to other customers. As for economic

benefits, this can be easily expressed in terms of monetary and non-monetary economic benefits. Monetary benefits such as special discount rates are given to customers who are in a relationship with the service provider. Non-monetary benefits are benefits whereby the customers save time, effort, and trouble (Bitner, 1995; Peterson, 1995; Sheth and Parvatiyar, 1995; Gwinner et al., 1998). According to Bitner (1995), it is natural to believe that most people prefer not to change, particularly when there is a considerable investment in a relationship. She suggested that staying in a relationship simplify consumer's decisions, thus saving both time and money. Therefore, to change would mean to invest in a new relationship which would anticipate both time and cost. Hence, the cost of switching is high. Similarly, Sheth and Parvatiyar (1995) suggested that consumers engage in a relationship to reduce choices by simplifying their buying behaviour. Peterson (1995), on the other hand, stated that benefits relating to saving money and convenience are the motives as to why consumers endure in a relationship.

Although, Gwinner et al. (1998) were amongst the first researchers to empirically investigate the types of relational benefits customers receive. They specifically call for causal research in the area of relationship benefits. More recently, Reynolds and Beatty (1999) conducted a study that examined the benefits customers receive from relationships with clothing/accessories salespeople. Their research was based on the findings of Gwinner et al. (1998) study and the relationship marketing literature. They classified relational benefits as either social benefits or functional (confidence and special treatment) benefits. In addition to examining the relational benefits customers receive, they also tested whether the relational benefits are associated with satisfaction, loyalty, word of mouth, and purchases. Their article applied causal research to strengthen the analysis and their

findings do support that relational benefits are positively associated with satisfaction, loyalty, word of mouth, and purchases.

Patterson (1999) also conducted a study that examined the relational benefits customers receive. He suggested that the nature and strength of perceived benefits in impacting the strength of a relationship might indeed vary by service type. From this, industries were selected based on high versus low interpersonal contact during service delivery and credence verse experience properties of the service. Under these criteria, Patterson (1999) selected medical services, car servicing/maintenance, hairdressing, and travel agency services to conduct his study. His findings indicated that consumer relational benefits could be categorised into two distinct types: social and special treatment benefits. Furthermore, results indicate that special treatment benefits are consistently viewed as more important than social benefits and the responses segmented by the type of service show a consistent pattern with respect to customer rankings of benefit importance.

In summary, the importance of customer relational benefits is receiving more attention in the marketing literature (Berry, 1995; Bitner, 1995; Sheth and Parvatiyar, 1995; Gwinner et al., 1998; Patterson, 1999; Reynolds and Beatty, 1999). Recently, initial attempts at understanding the customer relational benefits have been empirically investigated (Gwinner et al., 1998; Patterson, 1999; Reynolds and Beatty, 1999). Gwinner et al. (1998) were amongst the first researchers to empirically examine the types of customer relational benefits and other studies have used the findings of Gwinner et al. (1998) and the relationship marketing literature to understand as the customer relational benefits (Patterson, 1999; Reynolds and Beatty, 1999).

2.3 PERCEIVED SERVICE VALUE

Zeithaml (1988) has been the most common basis for previous research on perceived value (Ostrom and Iacobucci, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; McDougall and Levesque, 2000; Teas and Agarwal, 2000). Zeithaml (1988) conducted an exploratory investigation on the value construct and identified four unique definitions of value. These four consumer definitions of value are:

1. Value is low price (focus on sacrifice);
2. Value is whatever the consumer wanted in a product (focus on benefits);
3. Value is the quality the consumer obtained for the price paid (trade-off between one sacrifice component and one benefit component); and
4. Value is what the consumer gets for what is given (all relevant components considered).

Zeithaml (1988) also argued that the four consumer definitions of value could be captured in one overall definition. Specifically, Zeithaml (1988) defined value as "consumer's overall assessment of the utility of a product based on the perceptions of what is received for what is given. Though what is received varies across consumers (i.e., some may want volume, others high quality, still others convenience) and what is given varies (i.e., some are concerned only with money expended, others with time and effort), value represents a trade-off of the salient give and get components" (p.14). This definition is consistent with other researchers who have discussed value as a cognitive trade-off (Dodds and Monroe, 1985; Monroe and Krishnan, 1985; Monroe, 1990; Dodds et al., 1991; Dodds, 1995; Ostrom and

Iacobucci, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000).

For a service, quality has been identified as the salient "get" component and sacrifice made to acquire or consume the "gets" has been identified as the relevant "gives" component. Therefore, service value may generally be defined as a function of service quality and sacrifice. This conceptualisation of value as a function of quality and sacrifice has been widely accepted (Dodds and Monroe, 1985; Monroe and Krishnan, 1985; Zeithaml, 1988; Monroe, 1990; Dodds et al., 1991; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000).

Recently, Ostrom and Iacobucci (1995) have further examined the conceptualisation of value. These authors found that price, quality, sacrifice, friendliness, and customisation had a significant influence on perceived values for services under different conditions. For example, consumers are price sensitive to purchase conditions that are less critical. Whereas, purchase conditions that are more critical and important, consumers are less price sensitive and more quality orientated. However, the authors suggest that the results of this study are only preliminary and emphasised that more research is needed.

In summary, perceived service value is a complex construct that makes it difficult to define and examine. Thus, it is not surprising to find that prior research on perception of value have primarily focused on consumer products which generally examined the quality and sacrifice aspects (Dodds and Monroe, 1985; Monroe and Krishnan, 1985; Monroe, 1990; Dodds et al., 1991; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998;

Teas and Agarwal, 2000). Therefore, the examination of the perceived service value construct will be based on the perceived value for products.

2.4 PERCEIVED PRICE AND REFERENCE PRICE

Consumers do not always know or remember actual prices but instead, they encode prices in ways that are meaningful such as cheap, expensive, reasonable and so forth (Dickson and Sawyer, 1986; Zeithaml, 1988). In addition, it is assumed that consumers do not respond to price absolutely, but only relative to some reference price (Winer, 1986; Winer, 1988; Jacobson and Obermiller, 1990; Mayhew and Winer, 1992; Kalyanaram and Little, 1994; Rajendran and Tellis, 1994; Kalyanaram and Winer, 1995; Mazumdar and Papatla, 1995; Kumar et al., 1998; Mazumdar and Papatla, 2000). To further understand how consumers respond to price, it is important to understand how consumers use reference price.

The concept of reference price and the effects on brand choice have been well documented in both experimental work and in research that uses secondary data (e.g., scanner data). However, no research on reference price has been investigated in services and relatively few have been examined for products. Therefore, the review of the reference price literature will be heavily borrowed from the consumer brand choice behaviour.

The central concept of reference price is to analyze and understand how consumers respond to price. The underlying assumption is that consumers do not respond to the retail price absolutely, but only relative to the reference price (Winer, 1986; Winer, 1988; Jacobson and Obermiller, 1990; Mayhew and Winer, 1992; Kalyanaram and Little, 1994; Rajendran and Tellis, 1994; Kalyanaram and Winer, 1995; Mazumdar and Papatla, 1995; Kumar et al., 1998; Mazumdar and Papatla,

2000). Kumar et al. (1998) defined reference price as "the standard price against which consumers evaluate the actual price of the products they are considering for purchase". This definition is similar to Rajendran and Tellis (1994) definition. Two broad types of reference prices have been identified in the consumer behaviour literature, internal reference price and external reference price (Mayhew and Winer, 1992; Kalyanaram and Winer, 1995; Kumar et al., 1998). Internal reference price (IRP) is based on past price concepts that are in the mind of the consumer, and not present in the physical environment (Winer, 1988; Lattin and Bucklin, 1989; Jacobson and Obermiller, 1990; Kalwani et al., 1990; Kalyanaram and Little, 1994; Kalyanaram and Winer, 1995; Kumar et al., 1998; Mazumdar and Papatla, 2000). External reference price (ERP) is based on the observed stimuli present in the physical environment at the point of purchase and is not consumer specific (Mayhew and Winer, 1992; Kalyanaram and Little, 1994; Rajendran and Tellis, 1994; Mazumdar and Papatla, 1995; Kumar et al., 1998; Mazumdar and Papatla, 2000).

2.4.1 Formation of Reference price

The literature review reveals that there are many different conceptualisations of the definitions of reference price. For instance, aspiration, market, and highest prices (Monroe, 1990); fair price (Thaler, 1985; Grewal, Monroe, and Krishnan, 1998); average market price (Urbany, Bearden, and Weilbaker, 1988; Grewal, Monroe, and Krishnan, 1998); lowest market price (Urbany, Bearden, and Weilbaker, 1988) and most likely price (Chang and Wildt, 1994). However, there is no consensus on which measures to use and so have resulted in numerous formations of RP (Winer, 1988; Hardie et al., 1993; Rajendran and Tellis, 1994; Chandrashakaran and Jagpal, 1995; Kalyanaram and Winer, 1995; Briesch et. al.,

1997). Furthermore, most researchers have used single measures of reference price. However, it has been argued that consumers use multiple measures on the formations of reference price and so studies have examined the effects of multiple measures in the formations of reference price to fully capture the reference price construct (Hardie et al., 1993; Rajendran and Tellis, 1994; Chandrashakaran and Jagpal, 1995; Briesch et. al., 1997).

Chandrashakaran and Jagpal (1995) conducted a study that empirically examined the effects of different alternative measures of IRP and whether the different measures of IRP are unitised or non-unitised. These authors selected four commonly used measures of IRP, fair price, lowest price seen, reservation price, and normal (most frequently encountered) price. Their findings supported the non unitised model which suggests that consumers uses of the different measures of IRP are independently considered during the decision making process. Also, their results indicated that not all the four measures are relevant, and that the uses of the measures vary from one product to another. This suggests that the uses of IRP are product specific, therefore it is inappropriate to use the same indicator of IRP for all products. However, fair price was considered in both the products tested; therefore fair price may serve as a reliable indicator of IRP.

Hardie et al. (1993) compared the fits of two models, one with IRP and the other with ERP. Their findings indicated that ERP is a better representation of reference price. On the other hand, a study by Briesch et al. (1997) found that IRP provides a better fit than ERP. Additionally, Rajendran and Tellis (1994) included both types of reference prices and found that both IRP and ERP are significant for modelling purchasing behaviour. They also suggested that modelling purchasing behaviour with both IRP and ERP are a better improvement of fit than using one.

One possible explanation for these inconsistent findings is that the type of reference price used can vary across consumers. Researchers (Rajendran and Tellis, 1994; Mazumdar and Papatla, 1995) have shown that the use of IRP and ERP depends on consumer characteristics. Rajendran and Tellis (1994) argued that the type of reference price used depends on consumer characteristics such as the number of brands sampled, strength of brand preference, and purchase frequency. They showed that when preference is high, brand sampling is low, and purchase frequency is high, the temporal component (IRP) is stronger than the contextual component (ERP) in predicting brand choice. Mazumdar and Papatla (1995) suggested that the type of reference price used depends on consumers brand loyalty. These authors examined the use of IRP and ERP in loyalty differences. Their findings suggested that high brand loyalty consumers use ERP and less brand loyalty consumers use IRP. Therefore, RP is a multidimensional and ambiguous construct (Winer, 1988; Jacobson and Obermiller, 1990; Bearden et al., 1992; Krishnamurthi et al., 1992; Kalyanaram and Winer, 1995), thus needs to be considered in light of other issue as well.

2.4.2 Acceptable Price Range

Jacobson and Obermiller (1990) suggested that reference price is dynamic. That is, price varies in the market place, across brands, stores, and at different times. Therefore, it is suggested that different consumers may use different IRP to make price judgements. They also suggested that consumers have observed and experienced variations in prices of brands, across stores, and at different times and therefore are unlikely to have a clear defined point estimate of price for a product. Instead, they argue that they may have a range of estimates of prices, known as the

"acceptable price range". Price acceptability can be defined as a judgement of price based on a comparison of the price cue to a range of acceptable prices stored in the memory (Lichtenstein et al., 1988). Researchers have conceptually argued that consumers generally have a range of prices they find acceptable to pay rather than a single price (Monroe and Petroshius, 1981; Klein and Oglethorpe, 1987; Lichtenstein et al., 1988; Dodds, et al., 1991) and empirically studies have supported this conceptualisation (Lattin and Bucklin, 1989; Kalyanaram and Little, 1994).

The acceptable price range is established to have an upper and lower price limit. The upper price limit identifies the price, above which consumers would consider the product to be too expensive, while the lower price limit identifies the price below which the consumer would be suspicious of the quality of the product. The width of the acceptable price range identifies the range of prices considered acceptable (the latitude of price acceptance) and others prices outside this range are considered unacceptable (the latitude of rejection).

Also, these upper and lower price limits are not static, but are altered by a variety of environmental stimuli including changing perceptions of price (Lichtenstein et al., 1988; Kalyanaram and Little, 1994). Therefore, these arguments serve to demonstrate that price is a complex construct that plays an important role in consumer decision making.

Researchers have also suggested that both reference price level and knowledge about prices can affect the width of the latitude of price acceptance (Lichtenstein et al., 1988; Kalyanaram and Little, 1994). The findings of these studies indicated that higher reference price leads to wider latitude of price acceptance and greater knowledge of prices leads to narrow latitude of price acceptance (Lichtenstein et al., 1988; Kalyanaram and Little, 1994). Other

researchers have conceptually argued that when consumers are less certain and accurate about prices then the latitude of price acceptance is widened (Urbany et al., 1988; Urbany and Dickson, 1991; Mazumdar and Jun, 1992). Furthermore, studies have been conducted to empirically examine the effects of loyalty on the latitude of price acceptance (Krishnamurthi and Raj, 1991; Kalyanaram and Little, 1994). The findings of these studies indicated that when consumers are on average more brand loyal in a given product category, they are likely to have a wider latitude of price acceptance. The reason for this is that high brand loyalty keeps the consumer more focused on benefits of the brand and less focused on the price, thereby making them less sensitive to price. Therefore, the reservation (highest) price the consumer is willing to pay will increase. Hence, loyalty widens the latitude of price acceptance. As for the low brand loyalty consumers, they focus more on price than that of benefits, so they are more sensitive to price. The switching cost for high loyalty consumers should be far greater than those that are low loyalty ones, where the switching cost is not just about price alone but benefits too.

2.4.3 Theories Supporting the RP Concept

The behavioural foundations for the RP concept came from several different areas of psychology. The most commonly used for reference prices is the Adaptation Level Theory (Helson, 1964) and Assimilation Contrast Theory (Sherif and Hovlard, 1958). Adaptation level (AL) theory explains the formation of reference prices. An individual's AL is a value that represents the pooled effect of all past and present simulations and to which the individuals are adapted. According to this theory, an individual's response to a stimulus will depend partly upon the person's AL. Assimilation contrast theory suggests that a new stimulus encountered

by an individual is judged against previous experience in the category. The past experience forms an individual's reference scale, and a preferred category within this scale becomes the "anchor". Subsequent stimuli are judged in relation to the reference scale. The reference scale provides the basis for comparisons and evaluations. The reference range suggests latitude of price acceptance. According to this theory, if the price is within the latitude of acceptance, the price is assimilated into the range and becomes acceptable. A price that is outside the range is contrasted to the acceptable range and becomes noticeable. Factors that influence the width of the latitude of price acceptance include reference price levels, frequency of purchase and the level of brand loyalty (Kalyanaram & Little, 1994).

2.4.4 Memory and Price Recall

It is widely accepted that memory and perception are altered by existing knowledge, beliefs and expectations (Monroe, 1973). When individual err in price recall they err in the direction of their reference price. This effect is found to be so much stronger and more consistent for low involvement products than for high involvement products (Helgeson and Beatty, 1988). The amount of attention paid to the past price, the ability to memorise the characteristics of the price and the use of the price in decision making will affect both the encoding into the memory and recall from the memory of the price information. Also, the memory trace of the actual price will decay over time because of the update of RP (Dickson and Sawyer, 1990).

Past research studies have demonstrated that consumers are not always accurate in their estimates of previously encountered price information (Zeithaml, 1982; Dickson and Sawyer, 1990; Urbany and Dickson, 1991). According to Dickson and Sawyer (1990), they found that 21.1% of their consumers could not

recall a price and less than half (47.1%) could state the price. But a substantial number of respondents do recall past prices reasonably accurately (55.6% were within 5% of the correct price). Dickson and Sawyer (1986) also suggested that the consumer's ability to recall prices accurately varies across product classes, therefore the relative use of IRP or ERP may vary. Other studies have also examined the effects of the inability to retrieve price information from the memory on consumer's confidence and the level of uncertainty of prices (Zeithaml, 1982; Mazumdar and Jun, 1992). These studies suggested that uncertainty is usually the result of unfamiliarity, insufficient pre purchase search, and process of information. Furthermore, the findings indicated that the consumer's confidence decreases and the uncertainty of prices will increase. Therefore, with this uncertainty in the mind of the consumer, they will have to cope with the uncertainty during the formation of their RP (Zeithaml, 1982; Mazumdar and Jun, 1992).

In summary, the recognition of reference price as a multidimensional and ambiguous construct (Winer, 1988; Jacobson and Obermiller, 1990; Bearden et al., 1992; Krishnamurthi et al., 1992; Kalyanaram and Winer, 1995) makes it complex and difficult to examine this construct. It has also been suggested that formation of reference price is product specific (Chandrashakaran and Jagpal, 1995) and situation specific (Jacobson and Obermiller, 1990). Therefore, it is not surprising that there is no general consensus on the formation of reference price.

2.5 PERCEIVED SACRIFICE

Sacrifice is defined as what is given up or sacrificed in order to acquire a product or service (Dodds and Monroe, 1985; Monroe and Krishnan, 1985; Zeithaml, 1988; Monroe, 1990; Dodds et al., 1991; Dodds, 1995: Teas and Agarwal,

2000). According to Zeithaml (1988), sacrifice is a broad construct that includes both monetary and non-monetary sacrifice. Monetary sacrifice is related to the cost or price in which the consumers must sacrifice in order to obtain the product or service. Whereas, non-monetary sacrifice are psychological sacrifices such as the time and effort that are associated with the purchase. Zeithaml (1988) also suggested that to some consumers, the monetary sacrifice is pivotal. Consumers who are price conscious will perceive monetary sacrifice to be important and anything that reduces the price will positively influence their purchase intentions. However, this usually involves increasing the non-monetary sacrifice of time and effort. On the other hand, consumers who are less price conscious will perceive non-monetary sacrifice of time and effort as more valuable, thus are willing to increase their monetary sacrifice.

The recognition of sacrifice as a broad construct makes it complex and difficult to examine this construct. Therefore, it is not surprising that prior researchers focused on just examining the monetary sacrifice for practical reasons (Zeithaml, 1988; Dodds et al., 1991; Dodds, 1995; Teas and Agarwal, 2000).

2.6 PERCEIVED SERVICE QUALITY

As competition becomes more intense, many firms are placing more concern on delivering high service quality to compete more effectively in the marketplace (Parasuraman et al., 1988). Service quality is an abstract and elusive construct that is difficult to define and measure (Parasuraman et al., 1985; 1988; Carman, 1990; Quester and Romaniuk, 1997). There are no objective measures of service quality and so a more appropriate approach in measuring service quality is to measure consumer's perception of service quality (Parasuraman et al., 1988). Parasuraman et

al. (1988) defined perceived service quality as "a global judgement, or attitude, relating to the superiority of the service". They also conceptualised that perceived service quality is a form of attitude related but not equivalent to satisfaction and results from a comparison of expectations with perceptions of performance (Parasuraman et al., 1985; 1988).

Distinctions between different views concerning the dimensions of service quality was also researched upon by Swartz and Brown (1989). "What" the service delivers is evaluated after performance (Swart and Brown 1989). Parasuraman et al. (1985) refers this as outcome quality whereas Gronroos (1984) uses the term technical quality. "How" the service is delivered is evaluated during the delivery (Swartz and Brown 1989). Parasuraman et al. (1985) refers this as process quality and Gronroos (1984) uses the term functional quality.

2.6.1 Measuring Service Quality

The most popular measure of service quality is SERVQUAL, an instrument developed by Parasuraman et al. (1985; 1988). Parasuraman et al. (1985; 1988) basic model was based on the disconfirmation paradigm (or the so-called gap model). The central idea in this model is that service quality is a function of the different scores or gaps between the expectations and perceptions. More specifically, the foundation of the model is based on consumer's expectations and perceptions of performances (Parasuraman et al., 1985; 1988). According to Parasuraman et al. (1985; 1988), expectations (E) are defined as desires or wants of consumers, i.e., what they feel a service provider should offer rather than would offer and perceptions (P) as consumers' beliefs concerning the service received (Parasuraman et al., 1985). These authors suggested that the consumer's assessment

of overall service quality is derived by the gaps between expectations and perceptions of the actual performance levels, such that, service quality is equivalent to perception minus expectation (P – E). If performance does not meet expectations then service quality is judged low. Similarly, if performance exceeds expectations then service quality is judged high.

The initial stage in measuring service quality involved conducting exploratory research in four different service industries (Parasuraman et al., 1985). The results revealed that the criteria used by consumers in assessing quality falls into ten components. These were access, communication, competence, courtesy, credibility, reliability, responsiveness, security, tangibles, and customer knowledge. In their 1988 study these components were condensed into five dimensions: reliability, assurance, tangibles, empathy, and responsiveness. The reliability, responsiveness, and tangibles dimensions remained distinct whereas the assurance and empathy dimensions contain items represented by seven of the ten original components. The definitions of these dimensions are provided in the Table 1 below. Therefore, service quality has five dimensions that capture all facets of the ten components and is a multidimensional construct (Parasuraman et al., 1985; Parasuraman et al., 1988; Buttle 1996; Bloemer et al., 1999). Furthermore, Parasuraman et al. (1988) developed a 22-item instrument, SERVQUAL to measure customers' expectations and perceptions separately, but administered at the same time. Thus, a total of 44 questions were used in their instrument.

Table 1: SERVQUAL Dimensions and Definitions

Dimensions	Definition
Reliability	The ability to perform the promised service dependably and accurately.
Assurance	The knowledge and courtesy of employees and their ability to convey trust and confidence.
Tangibles	The appearance of physical facilities, equipment, personnel, and communication materials.
Empathy	The provision of caring, individualised attention to customers.
Responsiveness	The willingness to help customers and to provide prompt service.

Source: Buttle (1996)

The availability of the SERVQUAL instrument has enabled many researchers to adapt SERVQUAL in variety settings to assess SERVQUAL validity and reliability (Carman, 1990; Babakus and Boller, 1992; Cronin and Taylor, 1992; Teas, 1993; Cronin and Taylor, 1994; Quester and Romaniuk, 1997). Preliminary studies that have assessed SERVQUAL validity and reliability have suggested some problems concerning the SERVQUAL instrument (Carman, 1990; Babakus and Bollen, 1992). Such problems include the dimensionality of service quality as a five-dimension construct and the appropriateness of operationalizing service quality as a perception minus expectation score. However, the major concern of the instrument at the time was the number of dimensionality of the service quality, and their stability from context to context (Carman, 1990; Babakus and Bollen, 1992). In Parasuraman et al. (1988) study, five dimensions were formed. However, Carman's (1990) study found more than five dimensions, whilst Babakus and Bollen's (1992) found fewer than five dimensions. Furthermore, Babakus and Bollen's (1992)

commented that "the domain of service quality may be factorially complex in some industries and very simple and unidimensional in others". Therefore, they argue that the number of service quality dimensions is dependent on the particular service being offered.

Efforts have been made to refine and reassess the SERVQUAL instrument (Parasuraman et al., 1991; 1994). However, the SERVQUAL instrument is still an issue that is been widely criticised and problems with the instrument still remains to be solved (Carman, 1990; Babakus and Boller, 1992; Cronin and Taylor, 1992; Teas, 1993; Cronin and Taylor, 1994; Asubonteng et al., 1996; Buttle, 1996; Quester and Romaniuk, 1997; Bloemer et al., 1999). For a more detailed account on the criticisms of SERVQUAL see, for example Buttle (1996).

Another important issue raised was the operationalisation of expectations in SERVQUAL. Teas (1993) questioned respondent's interpretation of the expectation battery in the SERVQUAL instrument, and believed that the respondents may use six different interpretations. Thus, suggested that the expectation questions are "somewhat vague". Cronin and Taylor (1992) also criticised the SERVQUAL instrument and argued that the gap model is flawed. These authors argued that omitting the expectation battery and only considering perception battery is sufficient enough to measure service quality. In Cronin and Taylor (1992) study, these authors investigated the conceptualisations and measurement of service quality and provided an alternative method of operationalizing perceived service quality. This alternative model, which they called SERVPERF was derived from the 22 individual performance scale items that make up the SERVQUAL scale. They argued that the 22 performance items adequately define the domain of service quality and for this reason, it was used as an alternative scale to examine the SERVQUAL scale. In

their study, the authors assessed SERVPERF and three other scales including SERVQUAL, weighted SERVQUAL, and weighted SERVPERF. Their research findings indicated that SERVPERF (unweighted) was a better measure of service quality when compared with the alternatives and that the SERVPERF scale explains more variation of service quality than that of SERVQUAL. Therefore, concluded that performance based measures (SERVPERF) is superior in measuring perceived service quality.

In summary, the recognition of service quality as a complex construct makes it difficult to define and measure (Parasuramanet al., 1985; 1988; Carman, 1990; Quester and Romaniuk, 1997). Also, with the absence of an objective measure of service quality, measuring consumer's perception of service quality has been the most appropriate approach in measuring service quality (Parasuraman et al., 1988). SERVQUAL has been the most popular measure of perceived service quality, yet it has been widely criticised (Carman, 1990; Babakus and Bollen, 1992; Cronin and Taylor, 1992; Teas, 1993; Cronin and Taylor, 1994; Asubonteng et al., 1996; Buttle, 1996; Quester and Romaniuk, 1997; Bloemer et al., 1999). Therefore, an alternative instrument SERVPERF has been argued to adequately define the domain of service quality and is superior in measuring perceived service quality than SERVQUAL (Cronin and Taylor, 1992; Quester and Romaniuk, 1997).

2.7 PURCHASE INTENTION

Purchase intention has been widely used in the pricing literature as a predictor of subsequent purchase and is defined as the likelihood that the consumer intends to use the product or service. This definition is consistent to other researcher who have examined products (Dodds and Monroe, 1985; Monroe and Krishnan,

1985; Zeithaml, 1988; Monroe, 1990; Dodds, et al., 1991; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998).

This chapter has discussed the relevant literature to provide the theoretical background of the construct in the study. The next chapter develops a conceptual model linking the constructs and develops hypotheses that links the constructs based on theoretical background of the study.

CHAPTER 3 HYPOTHESES DEVELOPMENT

3.1 INTRODUCTION

This chapter serves to extend the theoretical background of the research constructs to develop the conceptual model and hypotheses of the study. Section 3.2 discusses presents the conceptual model and discusses the hypotheses development.

3.2 THE CONCEPTUAL MODEL AND HYPOTHESES DEVELOPMENT

The conceptual model presented in Figure 1, proposes that relational benefits, a combination of perceived confidence, social, and special treatment benefits is the antecedent variable that influences perceived service value directly and indirectly. The indirect path is via reference price, perceived price, and perceived sacrifice. Perceived service value effects purchase intention. Therefore, the model focuses on the perceived relational benefits as the primary antecedents of perceived service value. Perceived service value is also considered in this model and acts as a mediating variable between perceived price and perceived service value. And so, the effect of perceived relational treatment benefits on consumers' purchase intentions is examined. Theoretical perspectives supporting the hypothesised linkages are discussed next.

3.2.1 Perceived Relational Benefits And Perceived Service Value

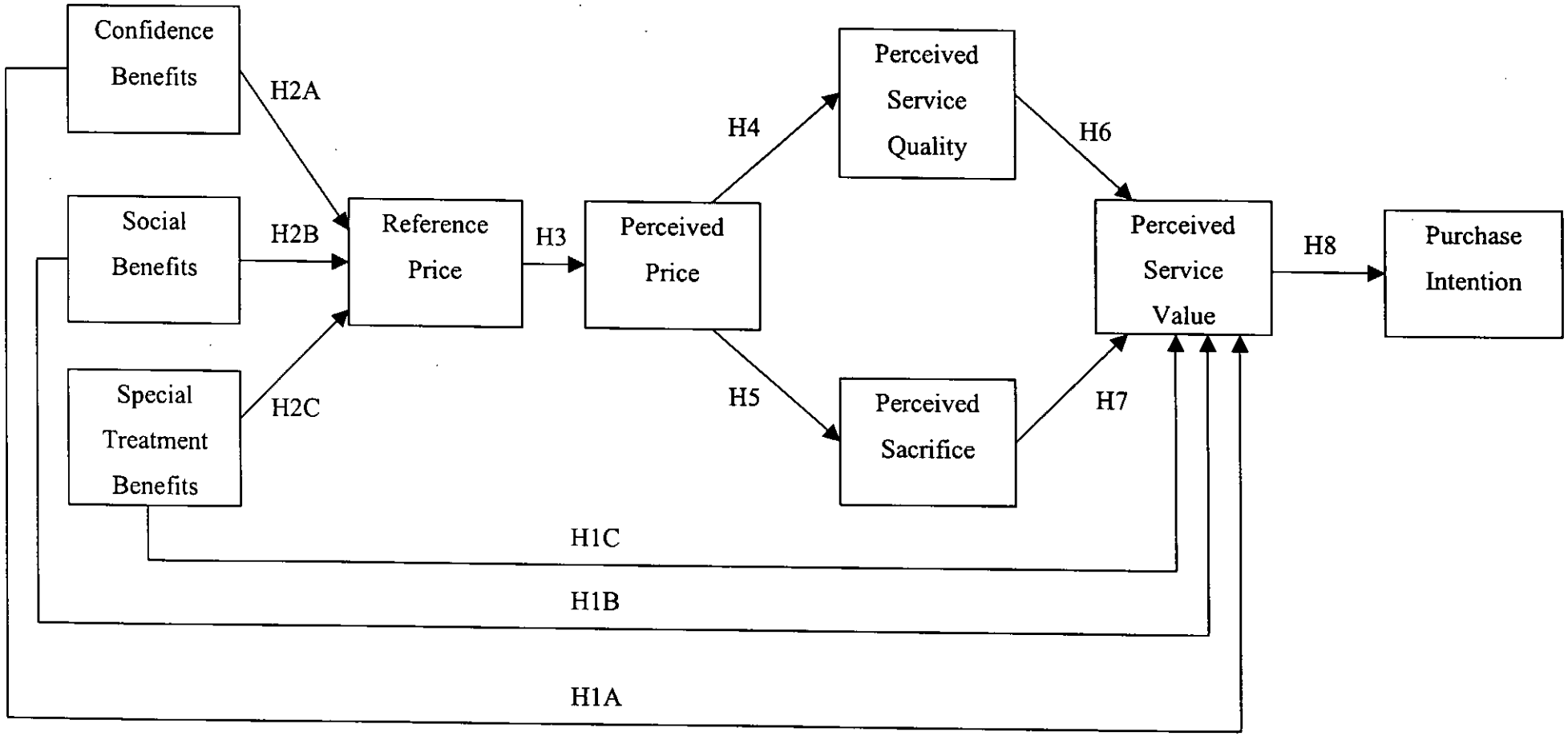
Zeithaml (1988) defined value as "consumer's overall assessment of the utility of a product based on the perceptions of what is received for what is given. Though what is received varies across consumers (i.e., some may want volume, others high quality, still others convenience) and what is given varies (i.e., some are

concerned only with money expended, others with time and effort), value represents a trade-off of the salient give and get components" (p.14). This definition is consistent with other researchers who have discussed value as a cognitive trade-off (Dodds and Monroe, 1985; Monroe and Krishnan, 1985; Monroe, 1990; Dodds et al., 1991; Dodds, 1995; Ostrom and Iacobucci, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000).

Furthermore, the conceptualisation of value as a function of quality and sacrifice has been widely accepted (Dodds and Monroe, 1985; Monroe and Krishnan, 1985; Zeithaml, 1988; Monroe, 1990; Dodds et al., 1991; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000). However, when considering services, relationship marketing also plays an important role (Gronroos, 1990). In services, there is often no separation between production, delivery, and consumption, thus the interaction between the marketer and the customer must be considered as part of the marketer's tasks. This task can often be fulfilled in a relationship with the customer (Gronroos, 1990). For a relationship to exist, both the firm and the customer must benefit (Czepiel, 1990; Gronroos, 1990; Barnes, 1994; Bitner, 1995; Berry, 1995; Gwinner et al., 1998). The types of benefits the customer receives when engage in a relationship have been conceptually discussed (Bagozzi, 1995; Berry, 1995; Bitner, 1995; Peterson, 1995; Sheth and Parvatiyar, 1995). However, relatively few empirical studies have been published that examine the types of relational benefits the customer receives. It is only recently that initial attempts at understanding the benefits customers receive when they engage in long-term relationships have been empirically investigated (Gwinner et al., 1998; Patterson, 1999; Reynolds and Beatty).

Gwinner et al. (1998) defined relational benefits as "the benefits customers receive from long-term relationships above and beyond the core service performance". These authors suggested that relational benefits could be categorised into three distinct types: confidence, social and special treatment benefits. Confidence benefits are psychological benefits customers receive that indicate that there is often a comfort or feeling of security in having developed a relationship with a service provider (Bagozzi, 1995; Berry, 1995; Bitner, 1995; Sheth and Parvatiyar, 1995; Gwinner et al., 1998; Reynolds and Beatty, 1999). Social benefits are the result of some kind of association with the employees after having developed a relationship with a service provider (Berry, 1995; Bitner, 1995; Gwinner et al., 1998; Reynolds and Beatty, 1999). Special treatment benefits are benefits customers receive that are not normally available to customers (Gwinner et al., 1998; Patterson, 1999).

Figure 1: The Conceptual Model



Since a relationship must be beneficial to both the firm and the customers, customers engaging in a relationship must receive some kind of relational benefits that are of value to them. And so, we believe that confidence, social, and special treatment benefits should have a direct positive effect on consumers' perceptions of service value. Therefore, we propose the following hypotheses:

H1A: There is a direct positive effect of consumers' perception of confidence benefits from a relationship with a service provider, on their perception of service value;

H1B: There is a direct positive effect of consumers' perception of social benefits from a relationship with a service provider, on their perception of service value; and

H1C: There is a direct positive effect of consumers' perception of special treatment benefits from a relationship with a service provider, on their perception of service value.

3.2.2 Perceived Relational Benefit and Reference Price

We believe that confidence, social, and special treatment benefits can have an indirect effect on consumers' perceptions of service value. The price of the service, as perceived by customers, is a key element of their perception of service value. It is possible that relational benefits influence perceptions of value through perceived price. To understand the indirect effect of confidence, social, and special treatment benefits on consumers' perceptions of service value, reference price and other aspects of pricing are considered.

The underlying assumption is that consumers do not respond to the retail price absolutely, but only relative to the reference price (Winer, 1986; Winer, 1988; Jacobson and Obermiller, 1990; Mayhew and Winer, 1992; Kalyanaram and Little, 1994; Rajendran and Tellis, 1994; Kalyanaram and Winer, 1995; Mazumdar and Papatla, 1995; Kumar et al., 1998; Mazumdar and Papatla 2000). Also, Jacobson and Obermiller (1990) suggested that reference price is unlikely to have a clear defined point estimate of price and instead, they argue that they may have a range of estimates of prices, known as the "acceptable price range". Price acceptability can be defined as a judgement of price based on a comparison of the price cue to a range of acceptable prices stored in the memory (Lichtenstein et al., 1988). It has been conceptually argued that consumers generally have a range of prices they find acceptable to pay rather than a single price (Monroe, 1979; Monroe and Petroshius, 1981; Klein and Oglethorpe, 1987; Dodds, et al., 1991; Lichtenstein et al., 1988) and empirically studies have supported this conceptualisation (Lattin and Bucklin, 1989; Kalyanaram and Little, 1994). The acceptable price range is established to have an upper and lower price limit. The upper price limit identifies the price, above which consumers would consider the product to be too expensive, while the lower price limit identifies the price below which the consumer would be suspicious of the quality of the product. The width of the acceptable price range identifies the range of prices considered acceptable (the latitude of price acceptance) and others prices outside this range are considered unacceptable (the latitude of rejection). Also, these upper and lower price limits are not static, but are altered by a variety of environmental stimuli including changing perceptions of price (Lichtenstein et al., 1988; Kalyanaram and Little, 1994).

Researchers have suggested that reference price level can effect the width of the latitude of price acceptance and the findings indicated that higher reference price leads to wider latitude of price acceptance (Lichtenstein et al., 1988; Kalyanaram and Little, 1994). Also, studies have been conducted to empirically examine the effects of loyalty on the latitude of price acceptance (Krishnamurthi and Raj, 1991; Kalyanaram and Little, 1994). The findings of these studies indicated that consumers who are on average more brand loyal in a given product category are likely to have a wider latitude of price acceptance than those consumers who are less brand loyal. These researchers suggested that the reason for this is that high brand loyalty keeps the consumer more focused on benefits of the brand and less focused on the price, thereby making them less sensitive to price. Therefore, the reservation (highest) price the consumer is willing to pay will increase. Hence, loyalty widens the latitude of price acceptance. As for the low brand loyalty consumers, they focus more on price than that of benefits, so are more sensitive to price. Furthermore, the switching cost for high loyalty consumers should be far greater than those that are low loyalty ones, where the switching cost is not just about price alone but benefits too.

In this study, we assume that consumers who believe they are in a valuable relationship with the service provider are less sensitive to price and are expected to be more willing to pay a higher price due to the level of importance placed on the non price relational benefits, confidence and social benefits. As mentioned earlier, confidence benefits are psychological benefits customers receive that indicate a feeling of reduced anxiety and a development of trust and confidence with the service provider (Berry, 1995, Bitner, 1995; Gwinner, et al., 1998). Berry (1995) suggested that risk reduction is a key outcome of the

relationship and that many customers desire to be in a relationship with the service provider when the service delivered is perceived to be continuous, personally important, variable in quality, high in involvement, and/or complex in nature. Social benefits are the result of some kind of association with the employees after having developed a relationship with a service provider (Berry, 1995; Bitner, 1995; Gwinner et al., 1998). Berry (1995) suggested that relationship marketing allows service providers to become more knowledgeable about the customer's requirements and needs which enables service providers to provide services that are tailored to the customer. The recognition of the importance of these non-price relational benefits to the customer should influence their price sensitivity.

For consumers who believe that confidence and social benefits are important, we expect these consumers to be more willing to pay a higher price and so the upper limit of their acceptable price range will be higher which widens the latitude of price acceptance of these consumers. Furthermore, these consumers are also likely to compare their reference price with price information to adjust and update their reference prices. So, when consumers are willing to pay a higher price, we expect the reference price for these consumers to higher as well. Therefore, consumers' perception of confidence and social benefits should have a positive effect on their reference price.

In addition, we also assume that consumers who believe they are in a valuable relationship with the service provider are more sensitive to price and are expected to be less willing to pay a higher price due to the level of importance placed on the price relational benefits, special treatment benefits. Consumers who focuses on special treatment benefits expects to receive preferential

treatment such as special services, deals or discounts that are not available to other customers. And so, we assume these consumers to be more sensitive to price and expect them to be less willing to pay a higher price. For these consumers, we expect the upper limit of their acceptable price range will be lower which narrows the latitude of price acceptance of these consumers. Furthermore, these consumers are likely to adjust their reference prices by lowering it based on the expectation of preferential treatment of paying a lower price. Therefore, consumers' perception of special treatment benefits should have a negative effect on their reference price. Therefore, we propose the following hypotheses:

H2A: There is a positive effect of consumers' perception of confidence benefits from a relationship with a service provider, on their reference price for the service;

H2B: There is a positive effect of consumers' perception of social benefits from a relationship with a service provider, on their reference price for the service; and

H2C: There is a negative effect of consumers' perception of special treatment benefits from a relationship with a service provider, on their reference price for the service.

3.2.3 Reference Price and Perceived Price

In this study, we considered consumer's sensitivity to price to examine the effect of reference price on perceived price. For consumers who are more sensitive to price, we expect these consumers to be less willing to pay a higher

price. And so, these consumers will expect to have a lower level of reference price and a higher level of perceived price than those consumers who are less sensitive to price. On the other hand, consumers who are less sensitive to price, we expect these consumers to be more willing to pay a higher price. And so, these consumers will expect to have a higher level of reference price and a lower level of perceived price than consumers who are more sensitive to price. Therefore, we propose the following hypothesis:

H3: There is a negative effect of consumers' reference price on their perception of price.

3.2.4 Perceived Price, Perceived Service Quality, Perceived Sacrifice, and Perceived Service Value

Prior research in the pricing literature has examined perceived quality as a mediating variable between perceived price and perceived value for products. These studies has found that a positive relationship between perceived price and perceived quality and between perceived quality and perceived value (Dodds and Monroe, 1985; Rao, 1989; Dodds et al., 1991; Dodds 1995; Teas and Agarwal, 2000). In addition, past pricing research on products has also found that perceived price is positively associated with perceived sacrifice and that perceived sacrifice is negatively associated with perceived value (Dodds and Monroe, 1985; Rao, 1989; Dodds, 1995; Grewal, Krishnan, Borin, and Baker, 1998; Teas and Agarwal, 2000). We believe that these relationships may be extended to services. Therefore, we propose the following hypotheses:

H4: There is a positive effect of consumers' perception of price and their perception of service quality.

H5: There is a positive effect of consumers' perception of price and their perception of sacrifice.

H6: There is a positive effect of consumers' perception of service quality and their perception of service value.

H7: There is a negative effect of consumers' perception of sacrifice and their perception of service value.

3.2.5 Perceived Service Value and Purchase Intention

Purchase intention has been widely used in the pricing literature as a predictor of subsequent purchase and is defined as the likelihood that the consumer intends to use the service. This definition is consistent to other researcher who have examined products (Dodds and Monroe, 1985; Monroe and Krishnan, 1985; Zeithaml, 1988; Monroe, 1990; Dodds, et al., 1991; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998). In addition, past research has found that purchase intention is positively associated with perceived value for products (Dodds, et al., 1991; Grewal, Monroe, Baker, and Borin, 1998; Grewal et al., 1998). We believe that this relationship may be extended to services. Therefore, we propose the following hypothesis:

H8: There is a positive effect of consumers' perception of service value and their purchase intention.

This chapter has extended the theoretical background of the research constructs to develop the conceptual model and hypotheses for this study. The main research objectives of the study is to examine the direct and indirect effects of confidence, social, and special treatment benefits on consumers perceptions of service value. Therefore, focus of the research is placed on testing hypotheses one to six. Perceived service quality is also examined. However, its role is only peripheral but is examined to test whether it acts as a mediating variable between perceived price and perceived value in services. The next chapter addresses the research methodology of the study.

CHAPTER 4 RESEARCH METHODOLOGY

4.1 INTRODUCTION

This chapter serves to discuss the research design, operationalisation of measures, sample selection, methods of data collection and analysis, and the limitations of the research methodology. Section 4.2 discusses the research design and methodology. Section 4.3 discusses the operationalisation of measures for each of the latent constructs. Section 4.4 discusses the sampling selection and methods of data collection. Section 4.5 presents a detailed description on the methods of data analysis.

4.2 RESEARCH DESIGN

An experiment-cum-survey was used in this study to examine the effects of confidence, social, and special treatment benefits on consumers' perceptions of service value and purchase intentions in a pricing context. A booklet containing an introduction, the description of the scenario, and the survey questions was used as the stimulus in the experiment. Then, subjects were requested to fill in the booklet by answering all the questions. The questions utilised in the study were borrowed from past research whereby scales from prior research were utilised as the source of measures for the constructs and were modified to adapt to the researched service types. A judgmental sampling approach was utilised in this study. Undergraduate students from The Hong Kong Polytechnic University were chosen as the subjects of this study and two service types were chosen in this study to examine services in general. These service types were selected based on the subjects experiences and interests of the services. The two service types selected in this study were hair salons and photo

development, as it is believed that students commonly consume such services. The data collection consisted of two stages, pilot test and mass data collection. The pilot test was used to examine the measurement instrument of the study and exploratory factor analysis was employed to assess the psychometric properties of the scales and items will be identified for deletion. The results of the pilot test was then used to revise the measurement instrument and mass data collection was conducted to gather data to test the model and hypotheses using causal modelling.

4.3 OPERATIONALISATION OF MEASURES

Scales from prior research were utilised as the source of measures for the constructs of this study. The operationalisation of measures for the constructs of this study is individually discussed. Then, the scale items utilised in this study are presented in a table.

4.3.1 Relational Benefits

Relatively few studies have empirically examined customer relational benefits (Gwinner, Gremler, and Bitner, 1998; Patterson, 1999; Reynolds and Beatty, 1999) and Gwinner, et al. (1998) were amongst the first researchers to empirically investigate customer relational benefits. In Gwinner, et al. (1998) study, these authors developed a scale to measure the customer relational benefit construct and found that customer relational benefits could be categorised into three distinct types of benefits, confidence, social, and special treatments benefits. The measurement scale was also assessed for its reliability and strong internal consistency were found for confidence, social, and special treatment

benefits with Cronbach's alpha of 0.89, 0.88, and 0.89 respectively. Other researchers have also used the findings of Gwinner, et al (1998) study to further investigate the customer relational benefits in a different context (Patterson 1999; Reynolds and Beatty, 1999). In Reynolds and Beatty (1999) study, these authors found the Cronbach's alpha to be more than 0.80. Therefore, scales from Gwinner, et al. (1998) study was utilised as the source of measuring the relational benefits construct in this study. These items were measured on a seven-point scale anchored at "1=strongly disagree" and "7=strongly agree" to assess the three distinct types of relational benefits, confidence, social, and special treatment benefits.

4.3.2 Perceived Service Value

Prior research on perceived value have primarily focused on consumer products (Dodds and Monroe, 1985; Monroe and Krishnan, 1985; Monroe, 1990; Dodds et al., 1991; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000). However, when considering services, the perceived service value construct is complex and difficult to define and measure. Furthermore, relatively few studies have examined perceived service value and findings are only preliminary, thus more research in the area is needed (Ostrom and Iacobucci, 1995). This is beyond the scope of this study. And so, scales from prior research on perceived value were utilised as the source of measuring the perceived service value construct. In particular, scales from Grewal, Monroe, and Krishnan (1998) study were used because these authors built on past scales of perceived value for products (Dodds et al., 1991; Dodds, 1995) by providing additional questions in measuring

perceived value. These authors employed confirmatory factor analysis to test the measurement properties of the scale in two separate studies. In the first study, the scale reliability and variance extracted was found to have a value of 0.95 and 0.67 respectively. In the second study, the scale reliability and variance extracted was found to have a value of 0.97 and 0.80 respectively. The measurement properties of this scale indicate that the scale is sufficient in capturing the perceived value construct. Therefore, this scale was utilised as the source of measuring the perceived service value construct. However, due to the differences between products and services, it was not possible to apply all the items of products to services. Therefore, a pre-test of the scale items were reviewed by both academic staff and students of The Hong Kong Polytechnic University and relevant items were selected to measure the perceived service value construct. The items selected were then measured on a seven-point scale anchored at "1=strongly disagree" and "7=strongly agree".

4.3.4 Reference Price

Reference price is recognised as a multidimensional and ambiguous construct (Winer, 1988; Jacobson and Obermiller, 1990; Bearden et al., 1992; Krishnamurthi et al., 1992; Kalyanaram and Winer, 1995), thus making it difficult to define and measure. Also, the concept of reference price and the effects on brand choice has been well documented in both experimental work and in research that uses secondary data (e.g., scanner data). However, no research on reference price has been investigated in services and relatively few studies have examined products. Therefore, the operationalisation of the reference price construct will be borrowed from prior research for products and brand choice

behaviour. Two broad types of reference prices have been identified in the literature, internal reference price and external reference price. Also, each type of reference price has many different conceptualisations and operationalisations. And so, there has been no consensus on which measures to use and numerous formations of reference price has been examined (Hardie, et al., 1993; Rajendran and Tellis, 1994; Chandrashakaran and Jagpal, 1995; Kalyanaram and Winer, 1995).

Chandrashakaran and Jagpal (1995) suggested that consumers' formation of reference price is product specific and it is inappropriate to use the same measures of reference price for all products. However, these authors found that fair price is reliable in measuring the reference price construct. In Chang and Wildt (1994) study, these authors assessed the reference price construct by using a single item, most likely price. In Grewal, Monroe, and Krishnan (1998) study, these authors assessed internal reference price by using two common measures, average market price estimate and fair price. These authors employed confirmatory factor analysis to test the measurement properties of the scale in two separate studies. In the first study, the scale reliability and variance extracted was found to have a value of 0.79 and 0.66 respectively. In the second study, the scale reliability and variance extracted was found to have a value of 0.77 and 0.62 respectively. In another study, Grewal, Krishnan, Baker, and Borin (1998) assessed internal reference price by using three measures, normal price, average market price, and fair price. These authors also employed confirmatory factor analysis to test the measurement properties of the scale and the scale reliability and variance extracted was found to have a value of 0.91 and 0.97 respectively.

Based on the findings of these studies, the different measures utilised in the different studies were utilised as measures in operationalising the reference price construct in this study. In addition, other measures were utilised in measuring the reference price construct. For instance, the lowest and highest price was used to provide pricing information of the researched service types. Although the maximum price the buyer is willing to pay has a different meaning as the reservation price, it is believed that the reference price should lie between the minimum and maximum price the customer is willing to pay. Therefore, the pricing information was used to adjust, if necessary, the price of the researched service types to ensure that the price given is within an acceptable price range for the subjects of the study. Therefore, many different measures were utilised to measure the reference price construct in this study and subjects were required to provide dollar estimates.

4.3.3 Perceived Price

In Chang and Wildt (1994) study, these authors measured perceived price by asking respondents to judge the price given. In addition, their conceptual model indicated that perceived price is a function of reference price and the actual price. Therefore, a similar approach was adopted in this study to measure the perceived price construct. That is, subjects were required to make comparisons between consumers' reference price and the price given and these items were measured on a seven-point scale anchored at "1=very low" and "7=very high".

4.3.5 Perceived Sacrifice

The recognition of sacrifice as a broad construct encompassing monetary and non-monetary dimensions makes it complex and difficult to examine this construct. Furthermore, prior researchers have primarily focused on just examining the monetary sacrifice for practical reasons (Rao, 1989; Dodds et al., 1991; Dodds, 1995; Teas and Agarwal, 2000). In this study, consumers' perception of monetary sacrifice was examined and scale items from Dodds (1995) were utilised as the source of measuring the perceived sacrifice construct as it was found to have a high internal consistency (Cronbach's alpha) of 0.93. These items were measured on a seven-point scale anchored at "1=strongly disagree" and "7=strongly agree".

4.3.6 Perceived Service Quality

SERVQUAL has been the most popular measure of service quality, but it has also been widely criticised (Carman, 1990; Babakus and Bollen, 1992; Cronin and Taylor, 1992; Teas, 1993; Buttle, 1996; Bloemer et al., 1999). Common criticisms raised include the dimensionality of the service quality construct as a five-dimension construct and appropriateness of operationalising service quality as a gap score. As a result, an alternative scale, SERVPERF was used to define the domain of service quality (Cronin and Taylor, 1992) which was found to be unidimensional (excluding one variable, variable 19) and a Cronbach's alpha of greater than 0.88 was achieved.

In this study, perceived service quality was operationalised based on the measures derived from SERVPERF (Cronin and Taylor, 1992). Since service quality serves a peripheral role in the overall model and in the interest of

parsimony only a selection of measures from this instrument was utilised. Furthermore, Babakus and Bollen (1992) commented that "the domain of service quality may be factorially complex in some industries and very simple and unidimensional in others". Thus, argued that the number of service quality dimensions is dependent on the particular service being offered. A pre-test of the scale items were reviewed by both academic staff and students of The Hong Kong Polytechnic University and the selection of the measures was based upon the relevance to the researched service types. The items selected were measured on a seven-point scale anchored at "1=strongly disagree" and "7=strongly agree".

4.3.7 Purchase Intention

Purchase intention has been widely used in the pricing literature and Cronbach's alpha of more than 0.90 have been found in these studies (Dodds et al., 1991; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998). Therefore, scales from prior research were utilised to measure the purchase intention construct and the items were measured on a seven-point scale anchored at "1=very low" and "7=very high".

The scale items used in this study to measure each of the latent constructs are presented in Table 2. In addition, the item codes are also provided in this table.

Table 2: Scale Items and Codes to Measure Each of the Latent Constructs

Latent Constructs		Scale Items	Item Codes
Social	Confidence	I believe there is less risk that something will go wrong.	PRBCON1
		I feel I can trust the service provider.	PRBCON2
		I have more confidence the service will be performed correctly.	PRBCON3
		I have less anxiety whey I buy the service.	PRBCON4
		I know what to expect when I go in.	PRBCON5
		I get the provider's highest level of service.	PRBCON6
		I am recognised by certain employees.	PRBSOC1
		I am familiar with the employees(s) who perform(s) the service.	PRBSOC2
		I have developed a friendship with the service provider.	PRBSOC3
		They know my name.	PRBSOC4
		I enjoy certain social aspects of the relationship.	PRBSOC5
	Special Treatment	I get discounts or special deals that most customers don't get.	PRBST1
		I get better prices than most customers	PRBST2
		They do services for me that they don't do for most customers.	PRBST3
		I am placed higher on the priority list when there is a line.	PRBST4
		I get faster service than most customers do.	PRBST5
Perceived Service Value		If I use this service provider, I feel I would be getting my money's worth.	PSV1
		If I use this service provider, I think I would be getting value for the money I spend.	PSV2
		Compared to the maximum price I would pay to use this service, the price conveys good value.	PSV3
		I would consider this service provider to be a good value.	PSV4
		This service provider appears to be a bargain.	PSV5
Reference Price		What is the estimate of the average market price of this service	RP1
		What do you think would be the fair price for this service?	RP2
		What do you think would be the most likely price for this service?	RP3
		What do you think will be the normal price for this service?	RP4
		What is your expected price for this service?	RP5
		What is the minimum (lowest) price you are willing to pay for the service?	RP6
		What is the maximum (highest) price you are willing to pay for the service?	RP7

Table 2 continue…

Latent Constructs	Scale Items	Item Codes
Perceived Price	Compared to the average market price you would pay for this service, how would you judge this offering price?	PP1
	Compared to the fair price you would pay for this service, how would you judge this offering price?	PP2
	Compared to the most likely price you would pay for this service, how would you judge this offering price?	PP3
	Compared to the normal price you would pay for this service, how would you judge this offering price?	PP4
	Compared to the expected price you would pay for this service, how would you judge this offering price?	PP5
	Compared to the minimum (lowest) price you would pay for this service, how would you judge this offering price?	PP6
	Compared to the maximum (highest) price you would pay for this service, how would you judge this offering price?	PP7
Perceived Sacrifice	The amount of money to pay to use this service is a lot of money to spend.	PS1
	The amount of money to pay to use this service is much more than I expected	PS2
	Considering what I should expect to use this service, this amount of money is a lot of money to spend.	PS3
Perceived Service Quality	The service provider has modern looking equipment	PSQ1
	The service provider physical facilities are visually appealing.	PSQ2
	The service provider employees are neat appearing.	PSQ3
	Materials associated with the service are visually appealing at this service provider.	PSQ4
	When the service provider promises to do something by a certain time, it does so.	PSQ5
	When I have a problem, the service provider shows sincere interest in solving it.	PSQ6
	The service provider provides services at the time it promises to do so.	PSQ7
	Employees of the service provider are consistently courteous to me.	PSQ8
	The service provider has employees who give me personal attention.	PSQ9
	Employees of the service provider understand my specific needs.	PSQ10
Purchase Intention	What is the probability of using this service provider?	PI1
	What is the likelihood that you would use this service provider?	PI2
	If you were going to use this service, what is the probability of using this service provider?	PI3
	What are your chances of using this service provider?	PI4

4.4 SAMPLE SELECTION AND METHOD OF DATA COLLECTION

This section discusses the sampling selection and methods of data collection separately.

4.4.1 Sample Selection

A judgmental sampling approach was utilised in this study and undergraduate students from the Hong Kong Polytechnic University were chosen as the subjects for this study for a number of reasons. Students provide a reasonable homogenous group, which permits more exact theoretical predictions that may not be possible with the greater variability of heterogeneous groups. Also, prior research has used student samples to examine price effects on consumers purchasing behaviour (Dodds et al., 1991; Chang and Wildt, 1994; Dodds, 1995; Ostrom and Iacobucci, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000). Therefore, when extending this line of research to services, perhaps it is justifiable in the interest of conformity to also use students as research subjects. Furthermore, while a student sample is frequently not justified from a strict research methodology perspective, there is a reality consideration in that student subjects are less expensive in terms of time and money. According to Patzer (1996), it is generally acceptable if the subjects are serving in an experiment for a product that is of interest to them. And so, in this study, two service types were chosen to represent services in general and these service types were selected based on subjects' experiences and interests of the services. A discussion with both academic staff and students of The Hong Kong Polytechnic University

provided useful information on the selection of the researched service types for this study. The two service types that have shown interest to the students which are commonly and extensively used by students are hair salon and photo development. Therefore, in this study hair salon and photo development were examined to represent services in general. Furthermore, we believe these two service types should have different strength of relationship between the service provider and long time customers. More specifically, for hair salons, we expect a priori, that a strong relationship might exist between the service provider and long time customer. As for the photo development service, we expect a weaker relationship between the service provider and long time customers even if the customer had made repeated use of the same service.

Sample size is an important issue that needs to be addressed in this study. It is crucial that an adequate sample size is obtained in order to apply multivariate data analysis techniques. However, there are no definite criteria on what the exact sample size should be. Furthermore, different multivariate techniques may require different sample sizes to obtain valid results. In this study, two main techniques were applied to the data set and each technique has certain requirements on the appropriate sample sizes needed. The two techniques namely, exploratory factor analysis and structural equation modelling (Section 4.5 provides a detailed discussion on the data analysis techniques) required a sample size of at least 100 observations and 200 observations, respectively (Hair, et al., 1995). Hair et al. (1995) suggested that a sample of 100 observations or more is preferable when applying exploratory factor analysis. These authors also provided a general rule and recommended that a minimum of five observations per variable (scale item) to be analysed, and a better range would be ten

observations per variable. In this study, fifty-two items were utilised and so a minimum sample size of 260 was necessary to apply exploratory factor analysis. As for structural equation modelling, Hair et al. (1995) recommend a sample size of 200 observations is preferable and argue that this is a "critical sample size" (minimum acceptable) to test a model.

4.4.2 Method of Data Collection

Prior research has used an experiment approach to examine the price effects on consumers purchasing behaviour (Dodds et al., 1991; Chang and Wildt, 1994; Dodds, 1995; Ostrom and Iacobucci, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000). In this study, a similar approach is employed. An experiment-cum-survey was used in this study to examine the effects of confidence, social, and special treatment benefits on consumers' perceptions of service value and purchase intentions in a pricing context. A booklet containing an introduction, the description of the scenario, and the survey questions were used as a stimulus in the experiment. Then student subjects were requested to fill in the booklet by answering all the questions. The questions utilised in the study were borrowed from established scales from prior research and were modified to adapt to the researched service types. Also, the questions relating to all the constructs in the proposed conceptual model were measured at the same time. Hence, the data would be cross sectional and not longitudinal.

The controlled variable in this study is price and special attention was considered to ensure that the experiment is as realistic as possible. For instance, for hair salon services, the price for a haircut is acknowledged to be gender

specific in Hong Kong. Therefore, two prices were used to account for the gender specific issue and depending on the gender of the subject, the appropriate price was presented to the subjects to answer the survey precisely. For male subjects, a price of HK$150 was utilised in the study. As for female subjects, a price of HK$200 was utilised. It is critical to identify and treat the gender issue, as this may distort the data collected and inflate the sampling error creating difficulties in the data analysis stage. And so, dealing with the gender issue is beneficial for increasing research efficiency through decrease sampling error in the data analysis stage (Patzer, 1996). For photo developing, no obvious variables have been identified that may affect the data collection and so only one price was used. However, when considering photo developing in Hong Kong, it is important to understand that the price to develop a film is broken down into two fees, processing fee and price per photo (3R). In this study, the processing fee and price per photo (3R) utilised were HK$15 and HK$1, respectively. And so, when presenting this service, it was appropriate to provide the prices for both processing fee and price per photo (3R) to ensure a more realistic setting of the service.

Therefore, two versions of the booklets for the hair salon service were used to account for the gender differences and depending on the gender of the subject, the appropriate booklet was presented to the subjects to fill in. As for photo processing, only one version of the booklet was used and the format of the booklet took into account the presentation of the two different fees (processing fee and price per photo). In addition, the booklets were translated into Chinese to minimise the chances of misinterpretation due to language barriers and to ease the comprehension of the statements asked. Then, the booklet was back

translated into English to ensure that no loss of information occurred in the translation process. The whole translation process involved both academic staff and research students of The Hong Kong Polytechnic University who had sufficient experience in translating questionnaires.

The data collection consisted of two stages, pilot test and mass (main) data collection. Both stages utilised student subjects to fill in the booklet (experiment-cum-survey) and monetary incentives were provided to student subjects to increase their participation to the study. The purpose of the pilot test was to test the scale items. In particular, the pilot test was used to examine the measurement instrument in terms of comprehension and wordings. In addition, exploratory factor analysis was employed to the measurement instrument to assess the psychometric properties of the scales and items were identified for deletion. The results of the pilot test were then used to revise the measurement instrument and mass data collection for the main study was conducted to gather data to test the model using causal modelling.

4.5 METHODS OF DATA ANALYSIS

In this study, all data analyses were performed using SPSS 9.0 for Windows except for model estimation, which was conducted with the structural equation modelling technique using AMOS 3.61 (Arbuckle, 1994). Two main methods were utilised in this study, exploratory factor analysis and structural equation modelling and each method is discussed next.

Exploratory factor analysis (EFA) was employed to serve as a data reduction technique and involves a process of item selection and evaluation. However, certain conditions must be addressed to ensure that the EFA results

were reliable. Sample size is an important issue that needs to be addressed. It is crucial that an adequate sample size of 100 is obtained in order to apply EFA. Also, certain assumptions must be satisfied in order for the EFA results to be valid. These assumptions include normality, homoscedasticity, and linearity. However, these tests are rarely used (Hair et al., 1995). In addition to these assumptions, the data matrix must have sufficient correlations (greater than 0.3) to justify the application of EFA. The measure of sampling adequacy can be used to quantify the degree of intercorrelations among the items and the appropriateness of EFA (Hair et al., 1995). In this study, Kaiser-Meyer-Olkin (KMO) is used to measure the sampling adequacy and is interpreted with the following guideline: 0.9 or above, marvellous; 0.80 or above, meritorious; 0.70 or above, middling; 0.60 or above, mediocre; 0.50 or above, miserable; and below 0.50, unacceptable. In this study, the sampling adequacy was assessed using the cut off point of 0.70.

EFA using principal component analysis was employed to obtain factor solutions for all the constructs. Factors were extracted based on the commonly used criterion of latent root or eigenvalues greater than 1 except for perceived service quality, which was extracted based on a priori criteria. These extraction criterions for each construct are consistent with previous studies that have examined these constructs. Chapter five provides a more detailed account of the application of EFA. Factors were also rotated to simplify the interpretation of the factor matrix and all constructs were rotated using varimax rotation except perceived service quality, which was rotated using direct oblimin rotation. The interpretations of the factors involved an assessment of the factor loading of each item to determine if the correlations of the item and the factor were significant.

The criteria for the significance of factor loading were based on a rule of thumb provided by Hair et al. (1995). These author suggested that factor loadings greater than ±0.3 are considered to meet the minimum level; loadings of ±0.4 are considered more important; and if the loadings are ±0.5 or greater, they are considered practically significant. In addition to this general rule, the concept of statistical power to specify the factor loadings considered for differ sample sizes was also used to determine the criteria for the significant of factor loadings. Table 3 contains the sample sizes necessary for each factor loading value to be considered significant and is based on a 0.05 significance level, a power level of 80 percent, and standard errors assumed to be twice those of conventional correlation coefficients. Therefore, the guidelines for identifying significance factor loadings were based on both the general rule and the concept of statistical power.

Table 3: Guidelines for Identifying Significant Factor Loadings Based on Sample Sizes

Factor Loading	Sample Size Needed for Significance
0.30	350
0.35	250
0.40	200
0.45	150
0.50	120
0.55	100
0.60	85
0.65	75
0.70	60
0.75	50

Source: Hair, Anderson, Tatham, and Black (1995), p385

The factor loading were evaluated and items which do not load above the significant factor loading value, which cross loads onto more than one factor, or which mis-load, were considered as potential candidate for deletion. In addition, the communality, the amount of variance an original variable share with all other variables included in the analysis were examined to assess the EFA results and an extraction value of less than 0.50 was used as an indicator of a potential candidate for deletion. And so, variables were evaluated with respect to their factor loading, correlation with other variables, and communality. Also, any deletion or modification made to the factor model was respecified and EFA was repeated again until a clear solution was achieved. When a clear solution is achieved, the reliability if the scale was assessed. Reliability concerns the proportion of scale's variance which can be attributed to the "true" score of the latent construct. According to Churchill (1979), a coefficient (Cronbach's) alpha should be measured to assess the quality of an instrument. Reliability test using Cronbach's alpha was assessed for each construct and alpha coefficient greater than 0.7 was used as a conservative benchmark of the test (Nunnally, 1978). It should be noted that validity must also be addressed in the study. However, due to the small sample size for the pilot study, validity tests were not examined. The validity issue is addressed in the main study when the application of SEM is discussed.

Structural equation modelling (SEM) was utilised in the study because it provided a straightforward method of dealing with multiple relationships simultaneously while providing statistical efficiency (Hair et al., 1995). The focus of SEM is not on individual observations, but on the pattern of relationships across respondents. And so, SEM uses only the

variance/covariance matrix or correlation matrix as the input data. In this study, the covariance matrix was utilised as the input data due to its common and widely usage (Diamantopoulos, 1994) as well as its advantage of providing valid comparison between different populations or samples, something not possible when models are estimated with a correlation matrix (Hair et al. 1995).

Also, the most commonly used estimation method in SEM is the maximum likelihood (ML) approach (Anderson and Gerbing, 1988; Diamantopoulos, 1994; Chow and Bentler, 1995). This is because ML estimators have the desirable asymptotic, or large sample, properties of being unbiased, consistent, and efficient under the assumption of a multivariate normal distribution of the observed variables (Anderson and Gerbing, 1988). Therefore, in this study, ML approach was used as the estimation method in SEM. However, the important role of sample size must be addressed. The sample size plays an important role in the estimation and interpretation of the SEM results. It is generally accepted that the minimum sample size to ensure appropriate use of maximum likelihood estimation is 100, and when sample size increases, the sensitivity to detest differences among the data also increases. And so, when the sample size becomes too large (greater than 400), the SEM becomes too sensitive which effects the goodness of fit measures. As a result, Hair et al. (1995) recommend a sample size of 200 observations as a preferable sample size and argue that this is a "critical sample size" (minimum acceptable) to test a model.

In this study, the causal relationship between the constructs were examined using path analysis in AMOS 3.61 (Arbuckle, 1994). Following the guidelines provided by Anderson and Gerbing (1988), a two stage approach of SEM in which the measurement model was first estimated using confirmatory

factor analysis (CFA), and then the measurement model was "fixed" in the second stage when the structural model is estimated using path analysis. The measurement model, also known as confirmatory factor analysis, specifies how the latent construct are measured in terms of observed variables or indicators, and it also provides descriptive data on the measurement properties of the observed construct. The structural model specifies causal relationships among the latent constructs and describes the causal relationships and the amount of unexplained variance. Therefore, the combination of the measurement models and structural model forms a structural equation model.

Anderson and Gerbing (1988) provide a comprehensive discussion on the two-step approach. These authors discuss the comparative advantages of the two-step approach over a one step approach. These authors suggested that a two-step approach allowed tests of significance for all pattern coefficients. Also, a two-step approach allows an assessment of whether any structural model would give acceptable fit. In addition, they further suggested that one could make an asymptotically independent test of the substantive or theoretical model of interest. As a result, respecification can be made to achieve acceptable construct measurement. Finally, the two-step approach provides a particularly useful framework for formal comparisons of the substantive model of interest with the next most likely theoretical alternatives. Hair et al. (1995) also commented on the usage of a two-stage (step) approach and suggested that the rationale of this approach is that accurate representation of the reliability of the indicators is best accomplished in two stages to avoid the interaction of measurement and structural models. In the first stage, measurement model, specification is confirmatory in that relationships between the observed variables or indicators

and latent constructs are defined a priori. That is, items were forced to load on their pre-specified construct, and no cross loading were allowed. This technique is referred to confirmatory factor analysis (CFA). However, in order to conduct CFA, one of the parameters required to be constrained to one for identification purposes and the remaining parameters were free to be estimated. The selection of the parameter (to be constrained to one) was based on the EFA results. The observed variable with the highest factor loading was selected as the parameter to be constrained to one. This procedure was carried out for all measurement models in the research. The CFA results were then assessed for a satisfactory level of construct validity and reliability. The aim of the measurement model stage is to assess the validity and reliability of the observed and latent construct and to ensure that a good fit of the measurement model is achieved from the data.

The validity and reliability of the research instrument used in this study needs to be addressed to ensure that the items used to measure the research constructs are satisfactory. Reliability is concerned with the proportion of scales variance which can be attributed to the "true" score of the latent construct. It shows the extent to which a set of items measures the same thing and it is closely related to the correlations amongst the items which are designed to measure the construct. Reliability may be seen as a necessary but not sufficient condition for validity. Validity is the extent to which the items "accurately" measure what they are supposed to measure. Validity has many dimensions and in this study, construct validity, convergence validity, and discriminant validity were examined. DeVillis (1991) describes construct validity as "the extent to which a measure "behaves" the way that the construct it purport to measure should behave with regard to established measures of other constructs". Hair et al

(1995) refers convergent validity as the "extent to which different measures of the same concept are related". Anderson and Gerbing (1988) have explained that convergent validity can be assessed from the measurement model determining whether the indicators estimated pattern coefficient on its posited underlying construct factor is significant (greater than two standard error). Anderson and Gerbing (1988) explained that discriminant validity can be assessed for two estimated constructs by constraining the estimated correlation parameter between them to one and then performing a chi-square difference test on the values obtained from the unconstrained and constrained model. A significant low chi-square value for the unconstrained model in which trait correlations are not constrained to unity would indicate that the traits are not perfectly correlated and that discriminant validity is achieved (Bagozzi and Philips, 1982). To assess the construct reliability from the measurement model, composite reliability and variance extracted measures are computed separately for each of the construct in the measurement model. Guidelines suggest that the composite reliability and average variance extracted value should exceed 0.70 and 0.50 for a construct respectively (Bagozzi and Yi, 1988; Hair et al., 1995).

Therefore, in this study, seven measurement models were developed using AMOS 3.61 and CFA was performed to determine if each of the indicators (items) load on their underlying constructs (Anderson and Gerbing, 1988). After the estimation of the seven measurement models, the structural model was developed and was used to test the structural relationships among the constructs using path analysis. Once the CFA results were satisfactory for all measurement models, the second step, the structural model of SEM was conducted to examine the structural relationships among the constructs using path analysis. Estimation

of structural model using path analysis gives insights into the causal ordering of variables in a system of relationships. The t value and the parameter coefficient can examine test of significance of path coefficient and the overall significance of individual relationship respectively. The *t* value indicates whether or not a path coefficient differs significantly from zero, that is, whether or not the hypothesised linear relationship holds. If a *t* value of greater than two is achieved, then the path coefficient is considered to be significant at a 5% level. The parameter coefficient, on the other hand, indicates the amount of variance in the dependent variable that is accounted for by the variables entered the path or structural equation. In addition, the square multiple correlation (SMC) which indicates the amount of variance explained is examined.

The structural model was assessed on the measure of the overall fit. The most fundamental measure of overall fit is the likelihood ratio chi-square statistic. However, the chi square statistic is sensitive to sample size and poses potential problems (Bagozzi and Yi, 1988; Hair et al., 1995). That is, chi-square statistic is quite sensitive in different ways to both small and large sample sizes. Therefore, other measures of fits that are less sensitive to sample size were utilised to provide a better measure of fit. These include the goodness of fit index (GFI), Tucker Lewis Index (TLI), Comparative Fit Index (CFI), and the Incremental Fit Index (IFI). The goodness of fit index (GFI) is a non-statistical measure ranging in value from 0 (poor fit) to 1.0 (perfect fit). The GFI represents the overall degree of fit but is not adjusted for the degrees of freedom. Other measure of fits includes Tucker Lewis Index (TLI), Comparative Fit Index (CFI), Incremental Fit Index (IFI), all of which values ranges from 0 to 1. Although numerous of measures of fits had been established there is no criteria

on what values are acceptable. However, it is commonly acceptable that these measures of fits should exceed 0.9. Therefore, 0.9 is used as a benchmark for acceptable measures of fits. Another measure of fit, the root mean square error of approximation (RMSEA) is also utilised in the study. The RMSEA value ranges from zero to one, and low values are preferable. Again, no criteria are available on what value is acceptable. However, values ranging from 0.05 to 0.08 are considered acceptable.

Before the evaluation of SEM models, it is important to assess the adequacy of the input data and the statistical assumption underlying the methods used. Therefore, the input data is examined for non-normality and outliers; that is skewness and kurtosis for each variable in the model were assessed. Hair et al. (1995) suggested that variables which indicate departures from normality are identified with values of ±2.58. If the problem of normality were found, actions would be taken to correct the problems with non-normality by finding and removing outliers. Once the input data has been assessed, SEM can be conducted. Upon examination of the output results, it is appropriate to see if any abnormalities exist in the output. According to Bagozzi and Yi (1988), the most common anomalies are negative variances, correlations greater then one, and extremely large parameter estimates. These are due to model specification errors, identification problems and input errors. In Bagozzi and Yi's (1988) paper, these authors provide guidelines on how to deal with these problems. They suggested that the input specification must be checked to ensure it was meaningful and was implemented correctly. If identification was not proven a priori, this might be done explicitly. If a negative error variance is obtained, a

rerun of the model was appropriate with the problem parameter fixed to a very small positive value (for example, 0.0005).

This chapter has discussed the research methodology of the study. In particular, the operationalisation of measures for each of the constructs, the sample selection process, and the methods of data collection. Methods of data analysis is also presented to provide a detailed account of the two different techniques, exploratory factor analysis and structural equation modelling are applied. The next two chapters discuss the data analysis results for both the pilot and main data set. A total of 493 student subjects participated in this study whereby 93 subjects participated in the pilot study and 403 participated in the mass study. The pilot data was analysed using exploratory factor analysis (EFA) for data reduction purpose and the reliability of the scale was assessed using Cronbach's alpha coefficient test. The results of the pilot study was then used to revise the measurement instrument and main data collection was conducted. The main data collected was then randomly split into two sub samples for cross validation purpose. One sample (N=150) was analysed using EFA and the other sample (N=253) was analysed using structural equation modelling to test the model and hypotheses. The data analysis and results of the pilot and main data are presented separately in chapter 5 and chapter 6 respectively.

CHAPTER 5 DATA ANALYSIS: PILOT TEST

5.1 INTRODUCTION

This chapter serves to discuss the pilot data analysis results. In the pilot study, 93 subjects participated and the data collected was analysed using exploratory factor analysis (EFA) for data reduction purpose and the reliability of the scale was assessed using Cronbach's alpha coefficient test. A sample size of 93 was slightly lower than the preferential sample size of 100 observation (Hair et al., 1995), but it was still adequate to run EFA and the results is presented in section 5.3. However, before data analysis, the pilot data set was examined for non-normality and outliers. And so, section 5.2 presents the assessment of the normality of the data.

5.2 ASSESSMENT OF NORMALITY OF THE DATA

To test for the possibility that the data may have a non-normal distribution, checks for skewness, kurtosis, and outliers were conducted using SPSS 9.0 for Windows. Hair et al. (1995) suggested that variables which indicate departures from normality are identified with values greater than ±2.58. If the problem of non-normality were found, actions would be taken to correct the problems with non-normality by finding and removing outliers. As assessment of the appropriate normality of the data is important as this is one of the main assumptions of EFA. The skewness and kurtosis of the fifty-two observed variables were computed to test for conditions of high non-normality. The skewness values for items in the relational benefits construct were in the range of –0.543 to 0.392, while kurtosis values were in the range of –1.121 to 0.901. None of these values exceeded the ±2.58 value. The skewness values for

items in the perceived service value construct were in the range of –0.20 to 0.359, while kurtosis values were in the range of –0.482 to 0.209. None of these values exceeded the ±2.58 value. The skewness values for items in the perceived reference price construct were in the range of 0.294 to 1.002, except for one value that fell outside that range. That value was 3.536. The kurtosis values of the items were in the range of –1.372 to 0.966 except for one value that fell outside that range. That value was 19.807. Only one skewness and one kurtosis values were found to exceed the ±2.58 among items in the reference price construct. Both of the extreme values were on the same variable, "RP7". The skewness and the kurtosis values for items in the perceived price construct were in the range of –0.630 to –0.038, and –0.852 to 1.647 respectively, none of them exceeded the ±2.58 value. The skewness and the kurtosis values for items in the perceived sacrifice construct were in the range of –0.472 to –0.343, and –0.415 to –0.392 respectively, none of them exceeded the ±2.58 value. The skewness and the kurtosis values for items in the perceived service quality construct were in the range of –0.496 to 0.516, and –0.593 to 0.588 respectively, none of them exceeded the ±2.58 value. The skewness and the kurtosis values for items in the purchase intention construct were in the range of –0.073 to 0.76, and –0.716 to -0.272 respectively, none of them exceeded the ±2.58 value. Since only one observed variable for skewness and kurtosis was extreme, the data set was not considered to have serious departures from normality and the possibility of problems with non normal distributions did not appear to be significant. Therefore, the data set was considered suitable for further analysis.

5.3 EXPLORATORY FACTOR ANALYSIS RESULTS

Exploratory factor analysis (EFA) using principal component analysis was applied to all the constructs with the appropriate rotation methods (varimax or direct oblimin rotation). Factors were extracted based on the commonly used criterion, latent roots or eigenvalues greater than 1 except for perceived service quality, which was extracted based on a priori criteria. With reference to the sample size, the criteria for significant factor loadings was 0.55 which was derived from the guidelines for identifying significant factor loadings using the concept of statistical power that has a 0.05 significance level and a power of 80 percent (Hair et al, 1995). Also, Hair et al (1995) considered a factor loadings 0.55 to be practically significant. The analysis and results of each construct are discussed next.

5.3.1 Perceived Relational Benefits

Sixteen variables were used to capture the relational benefits construct and the variables were analysed using EFA with varimax rotation. Factors were extracted based on the latent root criteria. The results suggested three factor solutions, which represented 73.1% of the total variance explained. Variables PRBCON1 to PRBCON6 formed one factor, the "confidence benefits" and accounted for 27.1% of variance explained. Variables PRBSOC1 to PRBSOC5 formed the second factor, the "social benefits" and accounted for 23.9% of variance explained. Variables PRBST1 to PRBST5 formed the third factor, the "special treatment benefits" and accounted for 22.1% of the total variance explained. All factor loadings were greater than 0.55 suggesting that the correlations of the variables and the factors were significant. The sampling

adequacy was assessed using Kaiser Meyer Olkin (KMO) measure and a value of 0.778 was achieved, which was greater than the 0.7 cut off point. The communality of the variables were assessed and only one of the variable, "PRBCON6" was found to have an extraction value of 3.68, which was less than the 0.50 cut off point. Thus, indicating a potential candidate for deletion. In addition, the correlation of all the variables measuring this factor were examined to ensure that sufficient correlations (greater than 0.3) were justified for the application of EFA. However, the results indicated that many of the variables were poorly correlated with the other variables. For instance, out of the 16 variable used, "PRBST5" was found to have as many as twelve correlation values of less than 0.3, "PRBST4" had eleven, "PRBCON6" had ten, and variables PRBCON1, PRBCON2, PRBCON3, PRBSOC2, PRBST1, PRBST2, and PRBST3 had nine. And so, these variables were considered as potential candidates for deletion. The "PRBCON6" variable was removed from the factor model based on low correlation with other variables and low communality value and EFA was repeated again.

The results of the second application of EFA suggested three factor solutions, which captured 75.9% of the total variance explained. All factor loadings were greater than 0.55 and a KMO value of 0.769 was achieved. The communality of all the variables were greater than 0.5. However, low correlations still remained an issue and so variables were considered for removal to justify the application of EFA. And so, variables were removed from the factor model and EFA was repeated again until a clear solution was achieved. After several application of EFA, the final factor model consisted of nine variables and three factor solutions were found to capture the perceived relational

benefits construct, which represented 81.4% of the total variance explained. All factor loadings were greater than 0.60 (greater than the significant factor loading of 0.55) and a KMO value of 0.735 was achieved. The communality of all the variables were greater than 0.5. The reliability of each scale measuring the confidence, social, and special treatment benefits was found to have a Cronbach's alpha of 0.9109, 0.9018, and 0.8908 respectively, which is greater than the conservative benchmark of 0.7 (Nunnally, 1978).

5.3.2 Perceived Service Value

Five variables were used to capture the perceived service value construct and the variables were analysed using EFA with varimax rotation. Factors were extracted based on the latent root criteria, which is consistent to that conducted by Grewal, et al. (1998). The results suggested a one-factor solution, which represented 56% of the total variance explained. All factor loadings were greater than 0.60 (greater than the significant factor loading of 0.55) and a KMO value of 0.736 was achieved. Two variables, "PSV3" and "PSV5" were found to have low communality value of 0.409 and 0.481 respectively, which was less than the 0.50 cut off point. And so, were considered as potential candidates for deletion. The correlation of all the variables measuring this factor was examined to ensure that sufficient correlations (greater than 0.3) were justified for the application of EFA. However, the correlation between "PSV3" and "PSV4" were low with a correlation value of 0.253. And so was considered as a possible candidate of deletion. The "PSV3" variable was removed from the factor model based on low correlation and low communality and EFA was repeated again.

The results of the second application of EFA suggested a one-factor solution capturing 62.4% of the total variance explained, which was an improvement in the total variance explained. All factor loadings were greater than 0.60 (greater than the significant factor loading of 0.55) and a KMO value of 0.704 was achieved. However, the "PSV5" variable was found to have an extraction value of 0.437 and was removed from the factor model to test whether a better solution can be achieved. And so, EFA was repeated again. The results of the third and final application of EFA suggested a one-factor solution capturing 72.4% of the total variance explained, which was an improvement in the total variance explained. All factor loadings were greater than 0.70 (greater than the significant factor loading of 0.55) and a KMO value of 0.643 was achieved. The communality of all the variables were greater than 0.5 and the reliability of the scale was found to have a Cronbach's alpha of 0.8108 which is greater than the conservative benchmark of 0.7 (Nunnally, 1978).

5.3.3 Reference Price

Seven variables were used to capture the reference price construct and the variables were analysed using EFA with varimax rotation. Factors were extracted based on the latent root criteria. Results suggested a one factor, which represented 86.9% of the total variance explained. All factor loadings were greater than 0.90 (greater than the significant factor loading of 0.55) suggesting that the correlations of the variables and the factors were strongly significant and a KMO value of 0.924 was achieved. The communality of all the variables were greater than 0.5 and low correlations were not an issue, but high correlations (greater than 0.7) were found. Therefore, variables were evaluated to improve the EFA results. In this study, "RP6" and "RP7", items measuring minimum and

maximum acceptable prices were removed based on the main purposes of these items, which was to provide pricing information for the researched service types by ensuring the price is with an acceptable price range for the subjects of the study. In addition, it is not surprising to find that RP6 and RP7 do not correlate with the other RP measures. Therefore, these two items were removed from the factor model and EFA was repeated again.

The results of the second application of EFA suggested a one-factor solution capturing 93.1% of the total variance explained, which was an improvement in the total variance explained. All factor loadings were greater than 0.90 and a KMO value of 0.874 was achieved. The communality for all the variables were greater than 0.5 and low correlations were not an issue, but high correlations still remained. Variables were considered for removal and EFA was repeated until a better solution was obtained. The final model consisting of three variables and one factor solution was found to capture the reference price construct and represented 95.7% of the total variance explained, which was an improvement in the total of variance explained. All factor loadings were greater than 0.90 (greater than the significant factor loading of 0.55) suggesting that the correlations of the variables and the factors were strongly significant. KMO value was 0.764 and the communality for all the variables were greater than 0.5 and low correlations were not an issue, but high correlations still remained. It was decided that no further removal of variables was appropriate until a later stage. The reliability of this construct was found to have a Cronbach's alpha of 0.9765, which is greater than the conservative benchmark of 0.7 (Nunnally, 1978).

5.3.4 Perceived Price

Seven variables were used to capture the perceived price construct and these variables were analysed using EFA with varimax rotation. Factors were extracted based on the latent root criteria. Since the perceived price construct is a function of reference price and perceived price it was necessary for consistency in the measurement instrument to have the same remaining items in the scale for mass data collection. And so, variables removed from the reference price construct were also removed for the perceived price construct. Therefore, the factor model consisted of three variables and a one-factor solution was found to capture the perceived price construct, which represented 71.2% of the total variance explained. All factor loadings were greater than 0.80 (greater than the significant factor loading of 0.55) suggesting that the correlations of the variables and the factors were significant. A KMO value of 0.693 was achieved and the communality of all the variables were greater than 0.5. The reliability of the scale was found to have a Cronbach's alpha of 0.7966, which is greater than the conservative benchmark of 0.7 (Nunnally, 1978).

5.3.5 Perceived Sacrifice

Three variables were used to capture the perceived sacrifice construct and the variables were analysed using EFA with varimax rotation. Factors were extracted based on the latent root criteria. Results suggested a one-factor solution capturing the perceived sacrifice construct, which represented 79.8% of the total variance explained. All factor loadings were greater than 0.80 (greater than the significant factor loading of 0.55) suggesting that the correlations of the variables and the factors were strongly significant. A KMO value of 0.708 was

achieved and the communality of all the variables were greater than 0.5. The correlation of all the variables measuring this factor was examined to ensure that sufficient correlations (greater than 0.3) were justified for the application of EFA and low correlations were not issue. The reliability of the scale was found to have a Cronbach's alpha of 0.8732, which is greater than the conservative benchmark of 0.7 (Nunnally, 1978).

5.3.6 Perceived Service Quality

Ten variables were used to capture the perceived service quality construct and the variables were analysed using EFA with direct oblimin rotation. Following Cronin and Taylor (1992), perceived service quality is assumed to be unidimensional and so factors were extracted based on the priori criterion (factor = 1). The results suggested that the single factor captured 45.1% of the total variance explained for the perceived service quality construct. Two variables, "PSQ1" and "PSQ2" were found to have factor loadings less than 0.55. The "PSQ1" and "PSQ2" had factor loadings of 0.427 and 0.326 respectively. Thus suggested that the correlations of these two variables and the factors were insignificant. A KMO value of 0.794 was achieved. Five variables were also found to have low communality values. These five variables, "PSQ1", "PSQ2", "PSQ3", "PSQ4" and "PSQ9" were found to have communality values of 0.182, 0.106, 0.408, 0.359, and 0.443 respectively. Thus, indicating potential candidates for deletion. The correlation of all the variables measuring this factor was examined to ensure that sufficient correlations (greater than 0.3) were justified for the application of EFA. However, the results indicated that some of the variables were poorly correlated with the other variables. For instance, out of

the ten variables used, "PSQ2" was found to have six correlation values of less than 0.3 and "PSQ1" had five correlation values less than 0.3. Also, high correlations were found between the "PSQ5" and "PSQ7" variables, which made sense because these two items measure the "reliability" dimension of service quality. That is, "making promises and doing it within a certain time". High correlations were also found between the "PSQ9" and "PSQ10" variables, which made sense because these two items measure the "empathy" dimension of service quality. And so, these variables were considered as potential candidates for deletion. Therefore, based on these findings, variables were removed from the factor model and EFA was repeated again until a clear factor solution was achieved.

The final model consisted of four variables and the single factor captured 70% of the total variance explained for the perceived service quality construct. All factor loadings were greater than 0.70 (greater than the significant factor loading of 0.55) suggesting that the correlations of the variables and the factor were strongly significant. A KMO value of 0.798 was achieved and the communality for all the variables were greater than 0.5. The reliability of this construct was found to have a Cronbach's alpha of 0.8550, which is greater than the conservative benchmark of 0.7 (Nunnally, 1978).

5.3.7 Purchase Intention

Four variables were used to capture the purchase intention construct and the variables were analysed using EFA with varimax rotation. Factors were extracted based on the latent root criteria. The results suggested a one-factor solution capturing the purchase intention construct, which represented 88.7% of

the total variance explained. All factor loadings were greater than 0.90 (greater than the significant factor loading of 0.55) and a KMO value of 0.794 was achieved. The communality of all the variables were greater than 0.5. The correlation of all the variables measuring this factor was examined to ensure that sufficient correlations (greater than 0.3) were justified for the application of EFA and low correlations were not issue. However, very high correlations (greater than 0.8) were found amongst the variables. And so variables were evaluated for potential candidates for deletions. The "PI1" variable was removed from the factor model based on very high correlation with the other variables and the fact that it was too similar to the "PI3" item, which measured the "possibility" of using the service.

EFA was repeated again and a one-factor solution was found to capture the purchase intention construct, which represented 89% of the total variance explained. All factor loadings were greater than 0.90, which was greater than the significant factor loading of 0.55. A KMO value of 0.736 was achieved and the communality of all the variables were greater than 0.5. High correlations still remained amongst the variables, but it was decided that no further removal was appropriate until a later stage. The reliability of the scale was found to have a Cronbach's alpha of 0.9424, which is greater than the conservative benchmark of 0.7 (Nunnally, 1978).

This chapter has discussed the pilot data analysis results for each constructs of the study. Exploratory factor analysis was employed for data reduction purpose and the reliability of the scale was assessed using Cronbach's alpha coefficient test. The results of the pilot study were used to revise the

measurement instrument and a total of twenty-eight items were utilised in the revised measurement instrument. In addition, basic statistics of the data set provided invaluable pricing information of the two service types and the results indicated that the prices of the service types required adjusting. Therefore, price for a haircut (based on the mean values) for the male and female was adjusted to HK$80 and HK$100, respectively. As for photo development, no price adjustment was necessary. When the necessary amendments were made, the main data collection was conducted and the results are discussed in chapter 6.

CHAPTER 6 DATA ANALYSIS: MAIN STUDY

6.1 INTRODUCTION

This chapter serves to discuss the main data analysis results. In the main data study, 403 subjects participated and the data collected was randomly split into two sub samples for data analysis. Sample one consisted of 150 observations and was analysed using exploratory factor analysis (EFA). This sample size (N=150) was sufficient in conducting EFA because it satisfied the minimum requirement of five observations per variable to be analysed (Hair et al., 1995). The reliability of the scale was also assessed using Cronbach's alpha coefficient test. Sample two consisted of 253 observations and was analysed using structural equation modelling (SEM) to test the model. This sample size (N=253) was sufficient in conducting SEM because it satisfied the preferable sample size of 200 observations which is suggested as the "critical sample size" to test a model (Hair et al., 1995). Following Anderson and Gerbing's (1988) two step approach, the measurement models are developed and evaluated apart from the overall (structural) model. Confirmatory factor analysis (CFA) was performed on each of the measurement models and the validity and reliability of the measures were assessed. In each case, the covariance matrix and the maximum likelihood estimator were utilised in the SEM analysis. Having determined that the latent constructs and their observed indicator variables possessed acceptable measurement properties, the second step, the overall structural model was carried out to estimate and evaluate the causal relationships amongst the latent constructs.

Therefore, this chapter is divided up into six sections. Section 6.2 presents the assessment of the normality of the data set. Section 6.3 discusses the

EFA results. Then, discussions on SEM results are presented in two separate sections, one for each step of the two step approach of SEM. That is, section 6.4 discusses the measurement models and section 6.5 discusses the overall measurement (structural) models and the test of hypothesis. Finally, a brief discussion is presented in section 6.6 which further examines the comparisons of the two service type using perceived relational benefits as the main differentiate.

6.2 ASSESSMENT OF NORMALITY OF THE DATA

Following the same procedures for the assessment of the normality if the pilot data in section 5.2, the skewness and kurtosis of the twenty-eight observed variables were computed to test for conditions of high non-normality. The skewness and the kurtosis values for items in the relational benefits construct were in the range of –0.604 to –0.006, and –0.415 to 0.089 respectively, none of them exceeded the ±2.58 value. The skewness and the kurtosis values for items in the perceived service value construct were in the range of 0.095 to 0.412, and 0.032 to 0.127 respectively, none of them exceeded the ±2.58 value. The skewness values for items in the perceived reference price construct were in the range of –0.593 to 1.495, except for one value that fell outside that range. That value was 5.722. The kurtosis values of the items were in the range 0.615 to 1.567 and none of these values exceeded the ±2.58 value. The skewness and the kurtosis values for items in the perceived price construct were in the range of –0.412 to –0.007, and –0.070 to 0.245 respectively, none of them exceeded the ±2.58 value. The skewness and the kurtosis values for items in the perceived sacrifice construct were in the range of –0.242 to –0.06, and –0.796 to –0.559 respectively, none of them exceeded the ±2.58 value. The skewness and the

kurtosis values for items in the perceived service quality construct were in the range of –0.358 to –0.131, and –0.377 to -0.257 respectively, none of them exceeded the ±2.58 value. The skewness and the kurtosis values for items in the purchase intention construct were in the range of –0.485 to –0.373, and –0.218 to 0.093 respectively, none of them exceeded the ±2.58 value. Since only one variable for kurtosis was extreme, the data set was not considered to be serious departures from normality and the possibility of problems with non normal distributions did not appear to be significant. Therefore, the data set was considered suitable for further analysis. The data collected was randomly split into two sub samples for cross validation. Sample one consisted of 150 observations and was analysed using exploratory factor analysis (EFA). This sample size (N=150) was sufficient in conducting EFA because it satisfied the minimum requirement of five observations per variable to be analysed (Hair et al., 1995). The reliability of the scale was also assessed using Cronbach's alpha coefficient test. Sample two consisted of 253 observations and was analysed using structural equation modelling (SEM) to test the model. This sample size (N=253) was sufficient in conducting SEM because it satisfied the preferable sample size of 200 observations which is suggested as the "critical sample size" to test a model (Hair et al., 1995). The data analysis and results of each sub sample is discussed next.

6.3 EXPLORATORY FACTOR ANALYSIS RESULTS

A sample size of 150 observations was analysed using exploratory factor analysis to assess the psychometric properties of the scales used in this study. At this point, one item was identified as a candidate for deletion. Coefficient alphas

for the measures ranged from 0.7961 to 0.9552, which is greater than the conservative benchmark of 0.7 (Nunnally, 1978). The factor loading of these variables and the coefficient alpha for each scale are provided in Table 4.

Table 4: Factor Loading of Each Scale Item and the Coefficient Alpha for Each Scale

Latent Construct	Scale Item Code	Factor Loading	Coefficient Alpha
Perceived Confidence Benefits	PRBCON4	0.874	0.7961
	PRBCON5	0.904	
Perceived Social Benefits	PRBSOC3	0.852	0.8777
	PRBSOC4	0.859	
	PRBSOC5	0.872	
Perceived Special Treatment Benefits	PRBST1	0.909	0.8410
	PRBST2	0.911	
	PRBST3	0.728	
Perceived Service Value	PSV1	0.821	0.7981
	PSV2	0.908	
	PSV4	0.805	
Reference Price	RP2	0.978	0.9552
	RP4	0.961	
	RP5	0.960	
Perceived Price	PP2	0.910	0.8389
	PP4	0.833	
	PP5	0.871	
Perceived Sacrifice	PS1	0.874	0.8822
	PS2	0.905	
	PS3	0.923	
Perceived Service Quality	PSQ6	0.859	0.8346
	PSQ7	0.746	
	PSQ8	0.866	
	PSQ10	0.796	
Purchase Intention	PI2	0.936	0.9444
	PI3	0.955	
	PI4	0.955	

6.4 CONFIRMATORY FACTOR ANALYSIS RESULTS

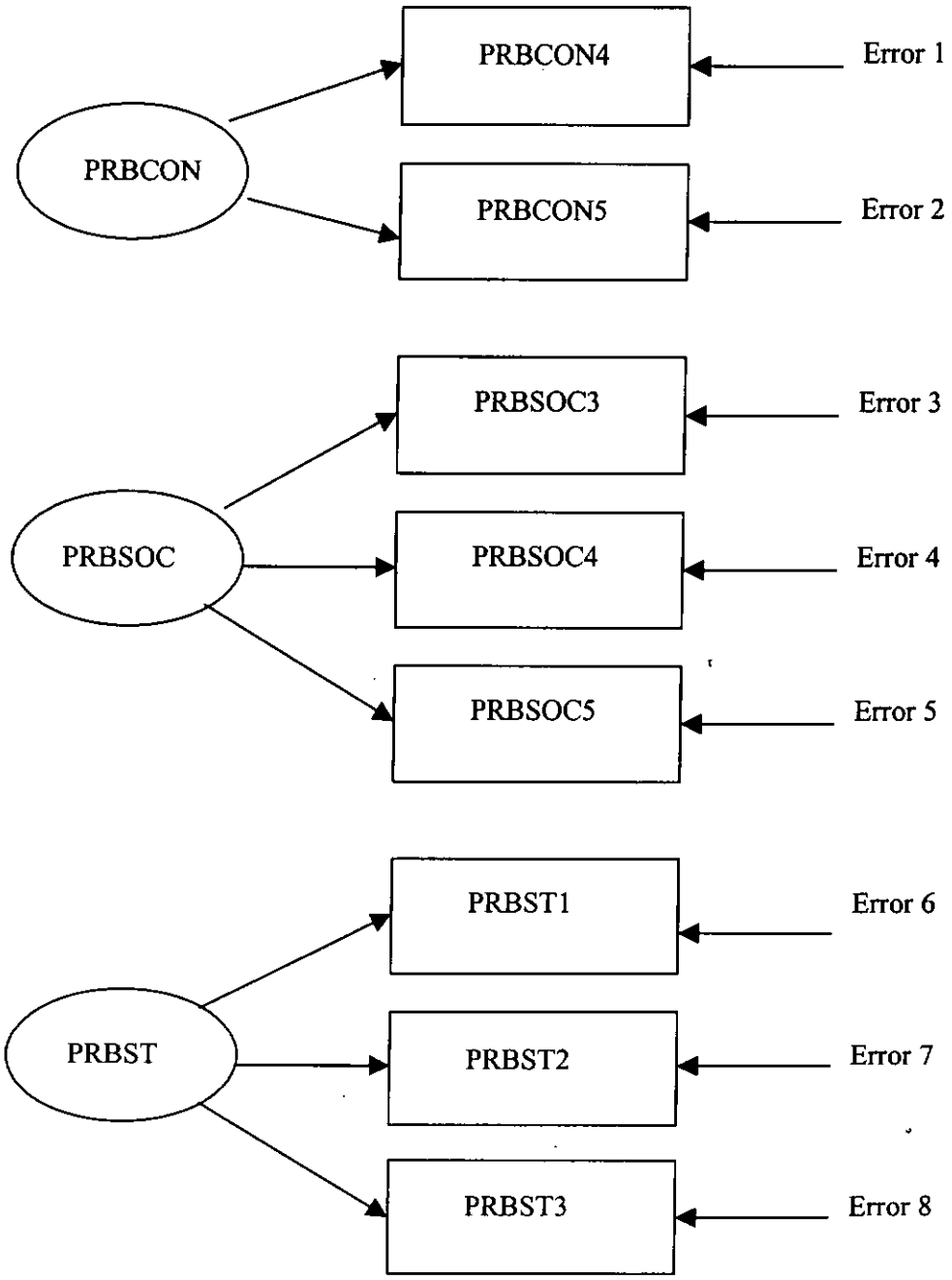
Confirmatory factor analyses (CFA) was performed on each of the latent constructs and for each measurement model the validity and reliability of the measures was assessed. In each case, the covariance matrix and the maximum likelihood estimator were utilised in the SEM analysis. For each construct, calculating the composite reliability and average variance extracted assessed the reliability. Examining convergent validity and discriminant validity assessed the validity. To assess convergent validity, Anderson and Gerbing (1988) have recommended that this can be determined by whether the indicators estimated pattern coefficient on it posited underlying construct factor is significant (greater than two standard error). To assess discriminant validity, Anderson and Gerbing (1988) have recommended that this can be assessed for two estimated constructs by constraining the estimated correlation parameter between them to one and then performing a chi-square difference test on the values obtained from the unconstrained and constrained model. A significant low chi-square value for the unconstrained model in which trait correlation are not constrained to unity would indicate that the traits are not perfectly correlated and that discriminant validity is achieved. The CFA results for all latent constructs are separately discussed next.

6.4.1 Perceived Relational Benefit

In EFA, eight variables were used to capture the perceived relational benefits construct. These eight variables represented three factor solutions, confidence benefits, social benefits, and special treatment benefits, and all three factors were used in CFA. The PRBCON5, PRBSOC5, and PRBST2 were constrained to one for identification purposes. The measurement model for the

perceived relational benefits construct is provided in Figure 2 and the results are presented in Table 5.

Figure 2: Perceived Relational Benefits Measurement Model



The composite reliability and average variance extracted were assessed for all three factors and all the composite reliabilities and average variance extracted for all the three factors exceeded the recommended benchmark of 0.7 and 0.5, respectively (see Table 5). Therefore, the scale has demonstrated reliability. Convergent validity was also assessed and all the indicators estimated pattern coefficient was significant (greater than two standard error). Therefore, convergent validity was achieved.

Table 5 : Confirmatory Factor Analysis Results for Perceived Relational Benefits

Item	Unstandardised Estimate	Standard Error	T Value	Standardised Estimate	Composite Reliability	Average Variance Extracted
PRBCON4	0.658	0.058	11.332	0.595	0.7814	0.6543
PRBCON5	1.000			0.977		
PRBSOC3	0.886	0.064	13.858	0.752	0.8843	0.7196
PRBSOC4	1.099	0.066	16.522	0.923		
PRBSOC5	1.000			0.861		
PRBST1	0.995	0.064	15.479	0.852	0.8772	0.7050
PRBST2	1.000			0.902		
PRBST3	0.816	0.059	13.769	0.759		

6.4.2 Perceived Service Value

In EFA, three variables were used to capture the perceived service value construct. These three variables were used in CFA and PSV2 indicator was constrained to one for identification purposes. The measurement model for the perceived service value construct is provided in Figure 3 and the results are presented in Table 6. The composite reliability and average variance extracted both exceeded the recommended benchmark of 0.7 and 0.5, respectively (see Table 6). Therefore, the scale has demonstrated reliability. Convergent validity

was also assessed and all the indicators estimated pattern coefficient was significant (greater than two standard error). Therefore, convergent validity was achieved.

Figure 3: Perceived Service Value Measurement Model

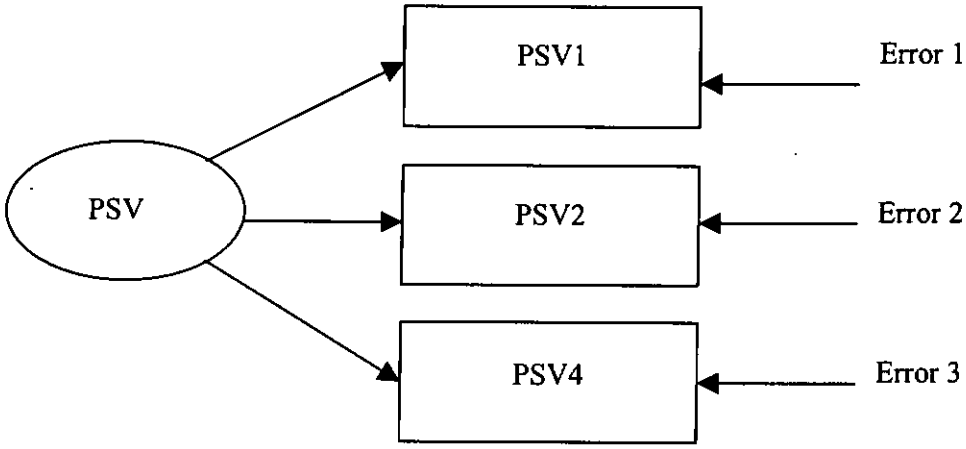


Table 6: Confirmatory Factor Analysis Results for Perceived Service Value

Item	Unstandardised Estimate	Standard Error	T Value	Standardised Estimate	Composite Reliability	Average Variance Extracted
PSV1	0.879	0.061	14.433	0.809	0.871	0.695
PSV2	1.000			0.951		
PSV4	0.797	0.062	12.786	0.725		

6.4.3 Reference Price

In EFA, three variables were used to capture the reference price construct. These three variables were used in CFA and the RP2 indicator was constrained to one for identification purposes. The measurement model for the reference price construct is provided in Figure 4 and the results are presented in Table 7. The composite reliability and average variance both exceeded the recommended benchmark of 0.7 and 0.5, respectively (see Table 7). Therefore,

the scale has demonstrated reliability. Convergent validity was also assessed and all the indicators estimated pattern coefficient was significant (greater than two standard error). Therefore, convergent validity was achieved.

Figure 4: Reference Price Measurement Model

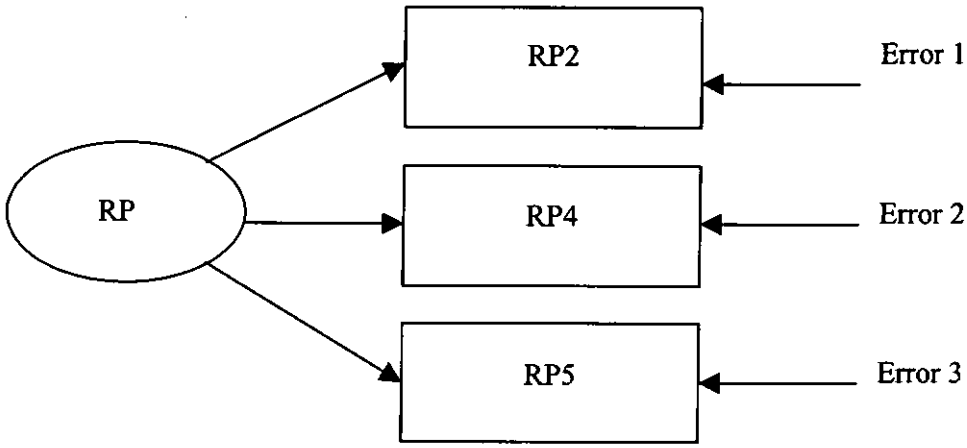


Table 7: Confirmatory Factor Analysis Results for Reference Price

Item	Unstandardised Estimate	Standard Error	T Value	Standardised Estimate	Composite Reliability	Average Variance Extracted
RP2	1.000			0.964	0.972	0.921
RP4	0.869	0.025	34.207	0.942		
RP5	0.755	0.018	40.822	0.972		

6.4.4 Perceived Price

In EFA, three variables were used to capture the perceived price construct. These three variables were used in CFA and the PP2 indicator was constrained to one for identification purposes. The measurement model for the perceived price construct is provided in Figure 5 and the results are presented in Table 8. The composite reliability and average variance extracted both exceeded the recommended benchmark of 0.7 and 0.5, respectively (see Table 8).

Therefore, the scale has demonstrated reliability. Convergent validity was also assessed and all the indicators estimated pattern coefficient was significant (greater than two standard error). Therefore, convergent validity was achieved.

Figure 5: Perceived Price Measurement Model

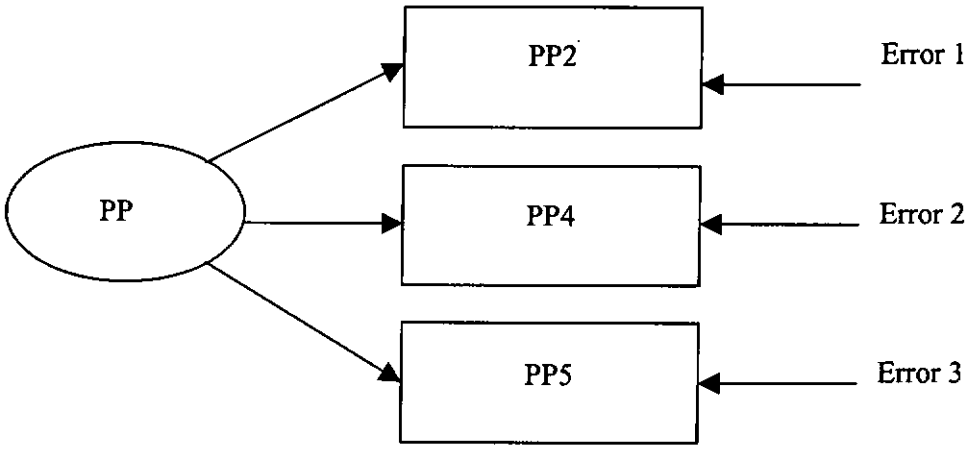


Table 8: Confirmatory Factor Analysis Results for Perceived Price

Item	Unstandardised Estimate	Standard Error	T Value	Standardised Estimate	Composite Reliability	Average Variance Extracted
PP2	1.000			0.874	0.859	0.670
PP4	0.914	0.071	12.896	0.770		
PP5	1.052	0.079	13.387	0.809		

6.4.5 Perceived Sacrifice

In EFA, three variables were used to capture the perceived sacrifice construct. These three variables were used in CFA and the PS3 indicator was constrained to one for identification purposes. The measurement model for the perceived sacrifice construct is provided in Figure 6 and the results are presented in Table 9. The composite reliability and average variance extracted both exceeded the recommended benchmark of 0.7 and 0.5, respectively (see Table 9). Therefore, the scale has demonstrated reliability. Convergent validity was also

assessed and all the indicators estimated pattern coefficient was significant (greater than two standard error). Therefore, convergent validity was achieved.

Figure 6: Perceived Sacrifice Measurement Model

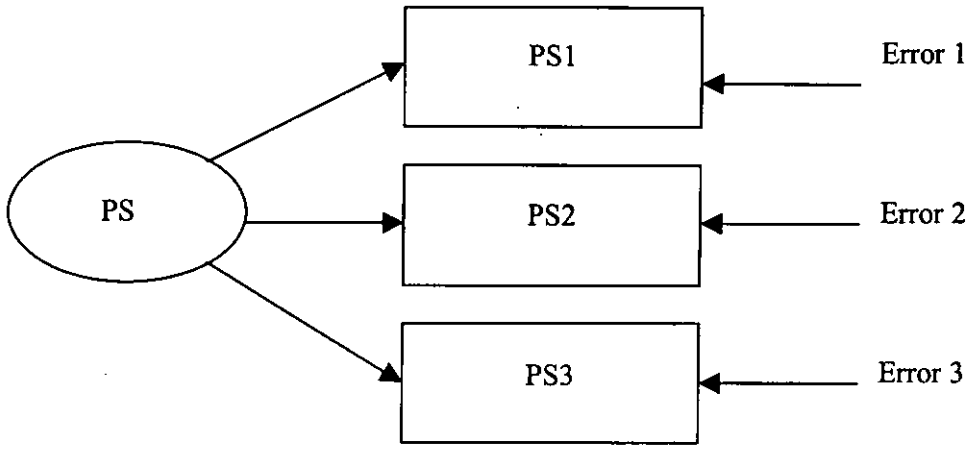


Table 9: Confirmatory Factor Analysis Results for Perceived Sacrifice

Item	Unstandardised Estimate	Standard Error	T Value	Standardised Estimate	Composite Reliability	Average Variance Extracted
PS1	0.980	0.059	16.598	0.827	0.901	0.753
PS2	1.067	0.060	17.908	0.880		
PS3	1.000			0.895		

6.4.6 Perceived Service Quality

In EFA, four variables were used to capture the perceived service quality construct. These four variables were used in CFA and the PSQ8 indicator was constrained to one for identification purposes. The measurement model for the perceived service quality construct is provided in Figure 7 and the results are presented in Table 10. The composite reliability and average variance extracted were both calculated and only the composite reliability value exceeded the recommended benchmark of 0.7. However, the average variance extracted was just below the recommended benchmark of 0.5 (see Table 10). Nevertheless, the

scale was deemed as being reliable. Convergent validity was also assessed and all the indicators estimated pattern coefficient was significant (greater than two standard error). Therefore, convergent validity was achieved.

Figure 7: Perceived Service Quality Measurement Model

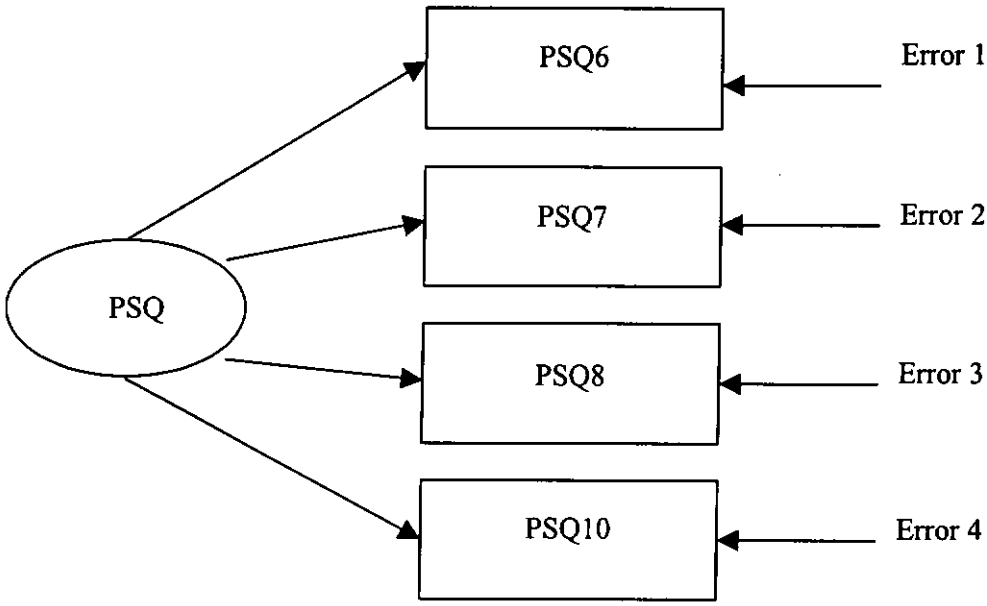


Table 10: Confirmatory Factor Analysis Results for Perceived Service Quality

Item	Unstandardised Estimate	Standard Error	T Value	Standardised Estimate	Composite Reliability	Average Variance Extracted
PSQ6	0.900	0.091	9.869	0.695	0.797	0.499
PSQ7	0.832	0.096	8.662	0.598		
PSQ8	1.000			0.810		
PSQ10	0.933	0.093	9.978	0.706		

6.4.7 Purchase Intention

In EFA, three variables were used to capture the purchases intention construct. These three variables were used in CFA and the PI3 indicator was constrained to one for identification purposes. The measurement model for the

reference price construct is provided in Figure 8 and the results are presented in Table 11. The composite reliability and average variance both exceeded the recommended benchmark of 0.7 and 0.5, respectively (see Table 11). Therefore, the scale has demonstrated reliability. Convergent validity was also assessed and all the indicators estimated pattern coefficient was significant (greater than two standard error). Therefore, convergent validity was achieved.

Figure 8: Purchase Intention Measurement Model

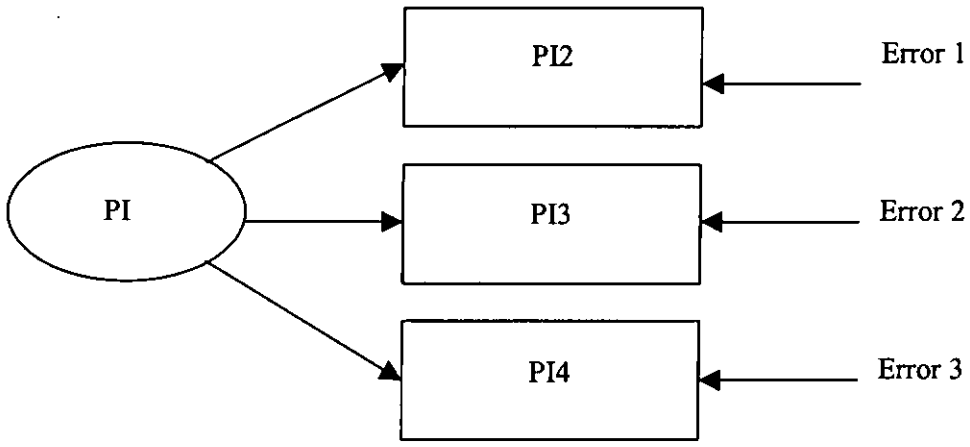


Table 11: Confirmatory Factor Analysis Results for Purchase Intention

Item	Unstandardised Estimate	Standard Error	T Value	Standardised Estimate	Composite Reliability	Average Variance Extracted
PI2	0.911	0.031	29.382	0.912	0.961	0.892
PI3	1.000			0.972		
PI4	0.984	0.028	34.827	0.948		

In addition to the measurement issues mentioned above, discriminant validity was assessed between four pairs of measurement models. More specifically, the discriminant validity was assessed between reference price and perceived price, confidence benefits and social benefits, confidence benefits and

special treatment benefits, and social benefits and special treatment benefits. Table 12 provides the assessment of discriminant validity between the above mentioned measurement models. To assess discriminant validity, the chi-square difference test (significant level of 5%) was performed between the unconstrained and constrained models. Discriminant validity was achieved between all the paired measurement models, except social benefits and special treatment benefits. Discriminant validity was not achieved for these two measurement models and this can be arguable since these two factors measure the same underlying construct, perceived relational benefits.

Table 12: Discriminant Validity Results

Constructs	Correlation	χ^2	Degree of Freedom	χ^2 Difference Test
Perceived Price & Reference Price	Free	174.697	12	Significant
	Constrained	252.836	13	
Perceived Confidence Benefits & Perceived Social Benefits	Free	19.859	7	Significant
	Constrained	39.519	8	
Perceived Confidence Benefits & Perceived Special Treatment Benefits	Free	7.795	7	Significant
	Constrained	15.200	8	
Perceived Social Benefits & Perceived Special Treatment Benefits	Free	18.228	12	Not Significant
	Constrained	18.242	13	

Note: From a χ^2 table, 1 degree of freedom has a χ^2 value of 3.84 at significant

In this section, CFA was performed separately on each of the measurement models and the validity and reliability of the measures were assessed. All composite reliabilities and average variance extracted were above 0.781 and 0.499, respectively. These values exceeded the recommended

benchmarks of 0.7 and 0.5 for composite reliability and average variance extracted, respectively. Except for perceived service quality where the average variance extracted value was on the borderline of acceptance (0.499). Convergent validity was assessed by determining whether the indicators estimated pattern coefficient on it posited underlying construct factor is significant (greater than two standard error) and convergent validity was achieved for all the constructs. Discriminant validity was also assessed and discriminant validity was achieved for three of the paired constructs (factors). Therefore, the latent constructs possessed acceptable measurement properties and the second stage, the overall measurement (structural) model was estimated and evaluated.

6.5 ESTIMATION OF STRUCTURAL MODEL AND TEST OF HYPOTHESIS

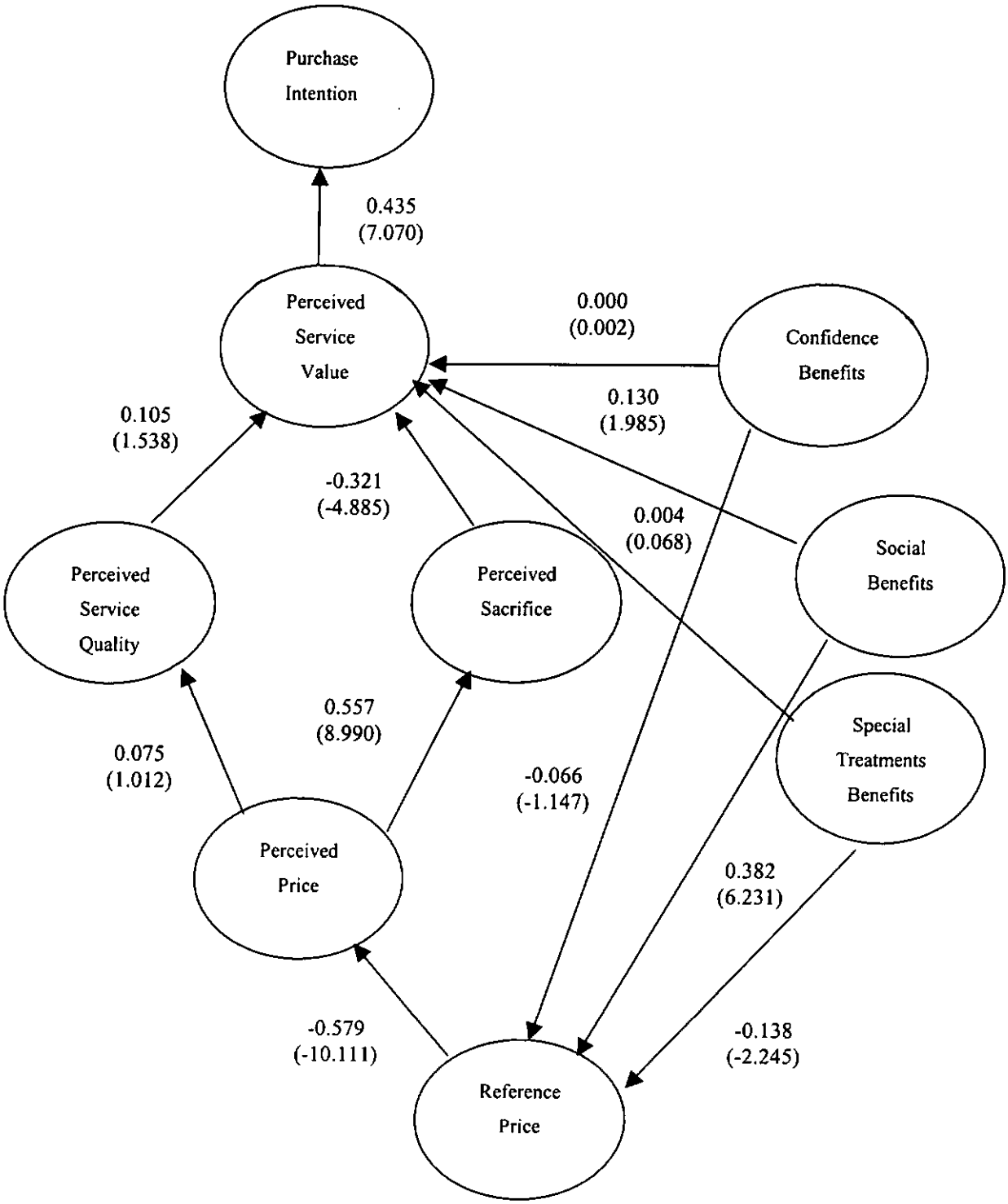
This section tests the goodness of fit of the overall measurement model, the second stage of the two stage approach of SEM (Anderson and Gerbing, 1988). The overall measurement model is derived from combining the measurement models of all the latent constructs and the relationships among the constructs are represented by paths. The model was used to evaluate the hypothesised relationships using path analysis. The overall fit of the model (original model) was not encouraging. The results for the individual paths in the original model are provided in Table 13 and Figure 9. The chi-square statistic was 1010.381 with 330 degrees of freedom and probability value of 0.000. Therefore the chi square test for the overall fit was significant at the 0.0001 level. However, the chi-square statistic is sensitive to sample size and therefore the

model is not rejected based on the chi-square statistic. And so, other measures of fit were used to assess the model. The goodness of fit index (GFI), Tucker Lewis index (TLI), comparative fit index (CFI), Incremental fit index (IFI) was found to have a value of 0.754, 0.859, 0.868, and 0.868, respectively, all of which do not satisfy the recommended benchmark of 0.9. Also, the root mean square error of approximation (RMSEA) was 0.090, which is not less that the recommended benchmark of 0.08.

Table 13: Original Model Results

Structural Paths	Unstandardised Estimates	T value	Standardised Estimates
PRBCON to PSV	0.000	0.002	0.000
PRBSOC to PSV	0.106	1.985	0.130
PRBST to PSV	0.003	0.068	0.004
PRBCON to RP	-2.801	-1.147	-0.066
PRBSOC to RP	12.759	6.231	0.382
PRBST to RP	-4.158	-2.245	-0.138
RP to PP	-0.014	-10.111	-0.579
PP to PSQ	0.082	1.012	0.075
PP to PS	0.672	8.990	0.557
PSQ to PSV	0.095	1.538	0.105
PS to PSV	-0.262	-4.885	-0.321
PSV to PI	0.539	7.070	0.435
SMC for each construct RP = 0.170 PP = 0.335 PS = 0.311 PSQ = 0.006 PSV = 0.138 PI = 0.189			

Figure 9: Original Model



Structural model displaying standardised loadings and *t* values in parentheses

The results of the individual paths in the original model indicated that five of the individual paths are insignificant (t value less than ±1.96) and the squared multiple correlation (SMC) value for the constructs in the study were greater than 0.138, except for one construct, perceived service quality which has a SMC value of 0.006. Such findings indicate that perceived service quality plays a peripheral role in the original model and its contributions are insignificant in the study due to the insignificant findings of the individual paths leading to and from the perceived service quality construct. It may be arguable that the perceived relational benefits plays a more important role for services and that perceived service quality. However, research into this area is still in its early phases. Furthermore, no research has examined the linkage between relational benefits and perceived service quality and it may be that such combination is so complex that it is difficult to examine. In any case, it was decided that a re-run of the analysis of the original model was appropriate with the exclusion of the perceived service quality construct to assess the relationship amongst the other latent constructs.

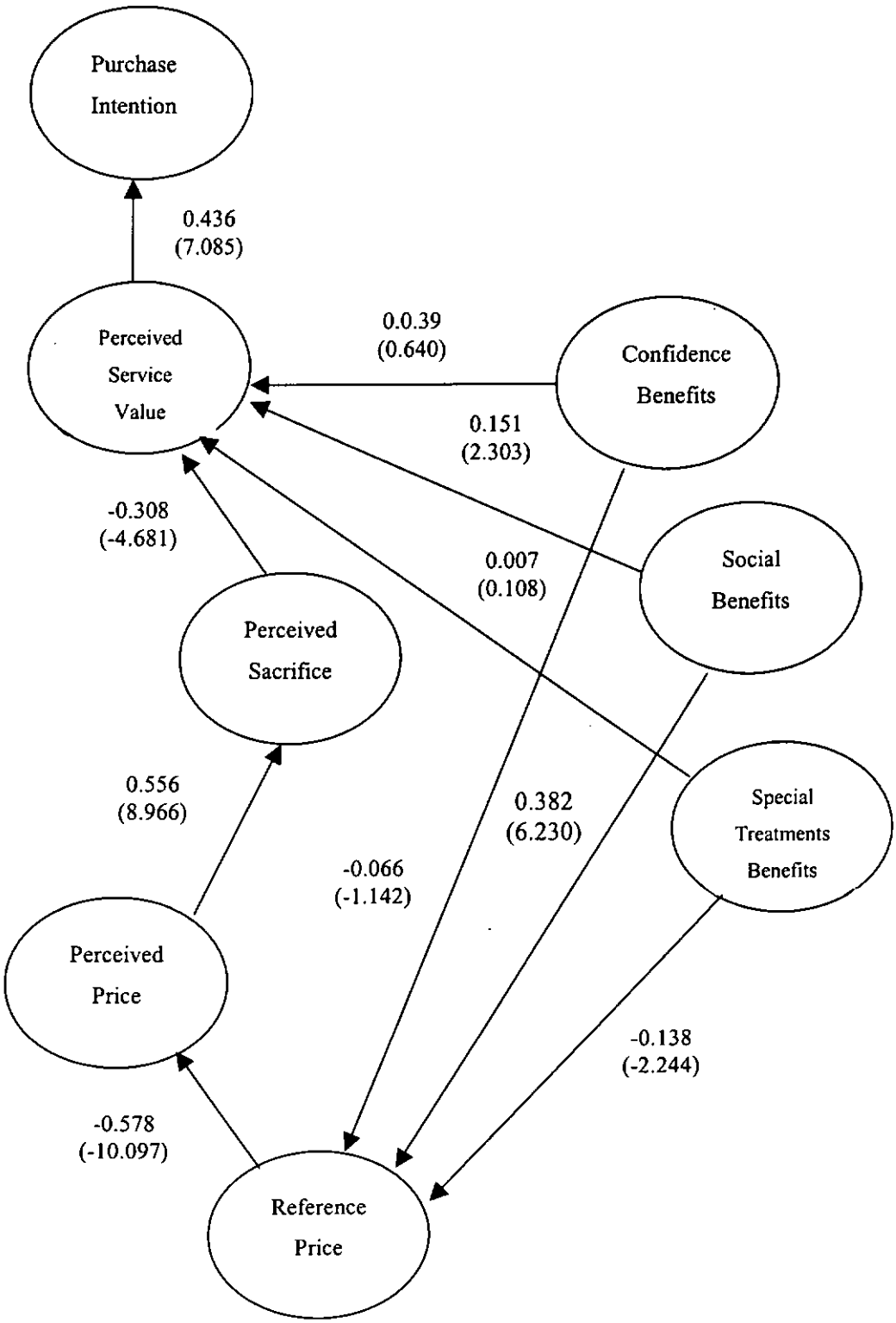
The overall fit of the modified model was improved as compared with the original model. The results of the individual paths in the modified model are provided in Table 14 and Figure 10. The chi-square statistic was 633.697 with 225 degrees of freedom and probability value of 0.000. Therefore the chi-square test for the overall fit was significant at the 0.0001 level. The GFI, TLI, CFI, IFI was found to have a value of 0.816, 0.906, 0.913, 0.913, respectively, all except one which exceeds the recommended benchmark of 0.9. Also, RMSEA was found to have a value of 0.082, which is slightly above the recommended benchmark of 0.08. The results of the individual paths in the modified model

indicated that three of the individual paths are insignificant (*t* value less than ±1.96). The SMC value for the constructs in the study were greater than 0.13, thus all constructs in the study have a contribution to the explanation of the model in the study. Therefore, the modified model was considered acceptable based on the measures of fits and the test of the hypotheses was assessed.

Table 14: Modified Model Results

Structural Paths	Unstandardised Estimates	T value	Standardised Estimates
PRBCON to PSV	0.040	0.640	0.039
PRBSOC to PSV	0.123	2.303	0.151
PRBST to PSV	0.005	0.108	0.007
PRBCON to RP	-2.771	-1.142	-0.066
PRBSOC to RP	12.760	6.230	0.382
PRBST to RP	-4.159	-2.244	-0.138
RP to PP	-0.014	-10.097	-0.578
PP to PS	0.670	8.966	0.556
PS to PSV	-0.251	-4.681	-0.308
PSV to PI	0.540	7.085	0.436
SMC for each construct RP = 0.169 PP = 0.334 PS = 0.309 PSV = 0.130 PI = 0.190			

Figure 10: Modified Model



Structural model displaying standardised loadings and *t* values in parentheses

Eight hypotheses were proposed in chapter three and each hypothesis was examined from the modified model. However, two of the hypotheses (hypothesis 4 and 6) were not examined from the modified model because these hypotheses were related to perceived service quality that was excluded in the modified model. Perceived service quality was excluded due to its insignificant findings in the original model and so it is reasonable to state that hypothesis 4 and 6 are insignificant. Thus, hypotheses 4 and 6 are not supported. Therefore, only six of the eight hypotheses were examined from the modified model. Four are supported and two are partially supported (significant at $p<0.05$ level). The results shown in Table 14 indicate that seven of the ten paths are significant (t value greater than ± 1.96).

Consumers' perception of confidence benefits from a relationship with a service provider is not related significantly to their perceptions of service value (t=0.640, Hypothesis 1A). Consumers' perception of social benefits from a relationship with a service provider had its predicted positive effects to their perceptions of service value (t=2.303, Hypothesis 1B). Consumers' perception of special treatment benefits from a relationship with a service provider is not related significantly to their perceptions of service value (t=0.108, Hypothesis 1C). Therefore, hypothesis 1 is only partially supported.

Consumers' perception of confidence benefits from a relationship with a service provider is not related significantly to their reference price for the service (t=-1.142, Hypothesis 2A). Consumers' perception of social benefits from a relationship with a service provider had its predicted positive effects to their reference price for the service (t=6.230, Hypothesis 2B). Consumers' perception of special treatment benefits from a relationship with a service provider had its

predicted negative effects to their reference price for the service (t=-2.244, Hypothesis 2C). Therefore, hypothesis 2 is only partially supported.

Consumers' reference price had its predicted negative effects to their perception of price (t=-10.097, Hypothesis 3). Therefore, hypothesis 3 is supported. Consumers' perception of price had its predicted positive effects to their perception of sacrifice (t=8.996, hypothesis 5). Therefore, hypothesis 5 is supported. Consumers' perception of sacrifice had its predicted negative effects to their perception of service value (t=-4.681, hypothesis 7). Therefore, hypothesis 7 is supported. Consumers' perception of service value had its predicted positive effects to their purchase intention (t=7.085, hypothesis 8). Therefore, hypothesis 8 is supported.

6.6 ONE WAY ANALYSIS OF VARIANCE RESULTS ON SERVICE TYPE DIFFERENCES

Further analysis on the main sub sample data set (N=253) provided addition information that has enabled us to compare between the two service types, hair salon and photo development. The aim was to further examine whether any differences exist between the two service types, as we believe that the nature and strength of relational benefits in impacting on the strength of a relationship may indeed vary by service type. In particular, we expect social benefits to be higher for hair salon due to the high degree of interpersonal contact and high level of customisation. As for photo processing, the service is of low personal contact and is very much standardised.

Descriptive statistics for each service type and one way analysis of variance (Anova) was conducted to examine if any differences between the two service types exist and are presented in Table 15 and Table 16, respectively.

Table 15: Descriptive Statistics for Both Service Types

	Hair Salons		Photo Processing	
Items	Mean	Standard Deviation	Mean	Standard Deviation
PRBCON4	4.88	1.07	4.68	1.19
PRBCON5	4.71	1.04	4.35	1.05
PRBSOC	3.78	1.44	4.42	1.46
PRBSOC3	3.40	1.33	4.12	1.30
PRBSOC4	2.86	1.27	3.70	1.36
PRBSOC5	3.26	1.34	3.64	1.33
PRBST1	4.35	1.66	4.50	1.50
PRBST2	4.65	1.52	4.58	1.48
PRBST3	3.85	1.53	4.01	1.36

From Table 15, the descriptive statistics show that the mean values for the perceived relational benefits for hair salons are greater than that of the photo processing. Also, the results indicated that there are significant differences between the two service types (see Table 16). More specifically, significant differences were found amongst the social benefits factor. However, further analysis is required to examine if significant differences between the two service types exist. Therefore, more research in this area is necessary to further understand the different strengths of relational benefits have in different service types.

Table 16: One Way Analysis of Variance Results on Service Types Differences

Item		Sum of Squares	Degree of Freedom	Mean Square	F	Sig.
PRBCON4	Between Groups	2.432	1	2.432	1.920	0.167
	Within Groups	318.042	251	1.267		
	Total	320.474	252			
PRBCON5	Between Groups	1.897	1	1.897	1.742	0.188
	Within Groups	273.431	251	1.089		
	Total	275.328	252			
PRBSOC1	Between Groups	25.414	1	24.414	12.039	0.001
	Within Groups	529.843	251	2.111		
	Total	555.257	252			
PRBSOC3	Between Groups	33.296	1	33.296	19.212	0.000
	Within Groups	435.005	251	1.733		
	Total	468.300	252			
PRBSOC4	Between Groups	44.019	1	44.019	25.531	0.000
	Within Groups	432.765	251	1.724		
	Total	476.783	252			
PRBSOC5	Between Groups	9.400	1	9.400	5.303	0.022
	Within Groups	444.900	251	1.733		
	Total	454.300	252			
PRBST1	Between Groups	1.499	1	1.499	0.599	0.440
	Within Groups	628.090	251	2.502		
	Total	629.589	252			
PRBST2	Between Groups	0.253	1	0.253	0.112	0.738
	Within Groups	567.558	251	2.261		
	Total	567.810	252			
PRBST3	Between Groups	1.589	1	1.589	0.750	0.387
	Within Groups	531.984	251	2.119		
	Total	533.573	252			

This chapter has discussed the main data analysis results. A sample size of 403 was split into two sub samples for separate analysis. Exploratory factor analysis was employed to the first sample (N=150) and the reliability of the scale was assessed using Cronbach's alpha coefficient test. In the second sample (N=253), structural equation modelling (SEM) was employed to the data set following the two step approach recommended by Anderson and Gerbing (1988). For each measurement model the validity and reliability was assessed and all constructs has been demonstrated to be valid and reliable. The model and the test of hypotheses also supported seven of the ten paths in the model (see Figure 10). However, perceived service quality was excluded in the modified model due to its insignificant findings in the original model (see Figure 9). Therefore, of the eight hypotheses only four are supported and two are partially supported. The next chapter provides the discussion and implications of the research.

CHAPTER 7 DISCUSSION AND IMPLICATIONS

7.1 INTRODUCTION

This chapter serves to provide the discussion and implications of the study. Section 7.2 discusses the overall evaluation of the research objectives. Section 7.3 provides a summary of the research findings for each of the constructs. Section 7.4 addresses the contributions of the research and section 7.5 discusses the research implications of the study for theory and practice. Section 7.6 addresses the limitations of the research whilst section 7.7 discusses directions for future research. Finally, section 7.8 provides concluding remarks of the study.

7.2 OVERALL EVALUATION OF THE RESEARCH OBJECTIVES

The aim of this study is to examine the direct and indirect effects of the dimensions of perceived relational benefits on consumers' perceptions of service value and purchase intention. The indirect effects of perceived relational benefits on consumers' perceptions of service value and purchase intention was examined by incorporating consumers' perceptions of price and reference price into the study. Furthermore, perceived service quality was also considered in this study and was considered to act as a mediating variable between perceived price and perceived service value. However, the main focus of the study was to examine the direct and indirect effects of the dimensions of perceived relational benefits on consumers' perceptions of service value and the role of perceived service quality was only peripheral. The three research objectives of the study are:

(a) investigate the direct effect of the dimensions of perceived relational benefits on consumers' perception of service value;

(b) investigate the indirect effect of the dimensions of perceived relational benefits on consumers' perception of service value through their perceptions of price; and

(c) investigate the indirect effect of the dimensions of perceived relational benefits on consumers' perception of service value through their perceptions of service quality.

For objective (a), findings indicated that the direct effects of the dimensions of perceived relational benefits on consumers' perception of service value are mixed (hypothesis 1). More specifically, consumers' perception of

confidence benefits from a relationship with a service provider is not related significantly to their perceptions of service value (t=0.640 Hypothesis 1A). Consumers' perception of social benefits from a relationship with a service provider had its predicted positive effects to their perceptions of service value (t=2.303, Hypothesis 1B). Consumers' perception of special treatment benefits from a relationship with a service provider is not related significantly to their perceptions of service value (t=0.108, Hypothesis 1C). And so the findings indicate that only one of the three types of relational benefits (social benefits) is important to the direct influence on consumers' perception of service value.

For objective (b), findings indicated that the indirect effect of the dimensions of perceived relational benefits on consumers' perception of service value through their perceptions of price are supported (hypothesis 2, 3, 5, 7), except for hypothesis 2A. More specifically, consumers' perception of confidence benefits from a relationship with a service provider is not related significantly to their reference price for the service (t=-1.142, Hypothesis 2A). Consumers' perception of social benefits from a relationship with a service provider had its predicted positive effects to their reference price for the service (t=6.230, Hypothesis 2B). Consumers' perception of special treatment benefits from a relationship with a service provider had its predicted negative effects to their reference price for the service (t=-2.244, Hypothesis 2C). Therefore, findings suggest that two of the three types of relational benefits (social and special treatment benefits) are important to the influence on consumers' perception of reference price. As for hypotheses 3, 5, and 7, all three hypotheses are supported. That is, consumers' reference price had its predicted negative effects to their perception of price (t=-10.097, Hypothesis 3), consumers'

perception of price had its predicted positive effects to their perception of sacrifice (t=8.996, hypothesis 5), and consumers' perception of sacrifice had its predicted negative effects to their perception of service value (t=-4.681, hypothesis 7). And so the findings suggest that the indirect effect of the dimensions of perceived relational benefits on consumers' perception of service value through their perceptions of price are significant, except for the effect of consumers' perceived confidence benefits on their reference price.

For objective (c), findings indicate that the indirect effect of the dimensions of perceived relational benefits on consumers' perception of service value through their perceptions of service quality were insignificant (hypothesis 4 and 6). According to the structural equation modelling (SEM) results, perceived service quality was found to have a squared multiple correlation (SMC) value of 0.006. This indicates that perceived service quality plays a peripheral role in the structural model and its contribution are insignificant in the study due to the insignificant findings of the individual paths leading to and from the perceived service quality construct. And so the findings suggest that the indirect effect of the dimensions of perceived relational benefits on consumers' perception of service value through their perceptions of service quality are insignificant.

7.3 SUMMARY OF RESEARCH FINDINGS

The perceived relational benefits construct consist of three dimensions, confidence benefits, social benefits, and special treatment benefits, and all three dimensions of perceived relational benefits was examined to understand the direct and indirect effects it has on consumers perception of service value and

purchase intention. The direct and indirect effects of consumers' perception of confidence benefits on their perception of service value were found to be insignificant in the study (hypothesis 1A and 2A). That is, consumers' perception of confidence benefits has no significant contribution in the structural model due the insignificant findings of the individual paths leading from the consumers' perception of confidence benefits factor. The direct and indirect effects of consumers' perception of social benefits on their perception of service value were found to be significant in the study (hypothesis 1B and 2B). This indicates that consumers' perception of social benefits has significant contributions to the understanding of how it effects consumers' perception of service value directly and indirectly. The direct and indirect effects of consumers' perception of special treatment benefits on their perception of service value were found to be insignificant and significant, respectively (hypothesis 1C and 2C). Thus indicating that consumers' perception of special treatment benefits is important when consumers relates it to pricing issues, such as reference price, perceived price, and perceived sacrifice.

We can infer that, even when concrete benefits such as low prices are considered by consumers of a service, it is the intangible relationship benefits such as social interaction which are valued most by them and which might influence their future patronage behavior.

Perceived service value is a complex construct that is difficult to define and examine. In this study, perceived service value is a trade-off between perceived service quality and sacrifice as well as the direct effects of perceived relational benefits. The SEM results indicate that the effect of consumers' perception of service quality on their perception of service value is insignificant

(hypothesis 4). Also, the effects of consumers' perception of confidence and special treatment benefits on their perceptions' of service value are insignificant (hypothesis 1A and 1C). This suggests that in this study, consumers' perception of sacrifice and perceptions of social benefits are the only two effects on consumers' perception of service value (hypothesis 5 and 1B). Furthermore, the perceived service value construct was found to have a SMC value of 0.130. Thus, indicating that perceived service value has some contribution to the explanation of the structural model in the study.

From this, we can infer that consumers weight the monetary amount of sacrifice more importantly than that of value for the service. Also, social interactions are of more value to them in influencing their value perceptions for the service.

Reference price is influenced by consumers' perception of relational benefits and has an effect on consumers' perception of price. The SEM results indicate that the effects of consumers' perception of relational benefits on their reference price are significant (hypothesis 2B and 2C), except for confidence benefits which was found to be insignificant (hypothesis 2A). The results also indicate that the effect of reference price on consumers' perception of price is significant (hypothesis 3). Furthermore, the reference price construct was found to have a SMC value of 0.169. Thus, indicating that reference price has some contribution to the explanation of the structural model in the study.

Perceived price is influenced by reference price and has an effect on consumers' perception of service quality and sacrifice. The SEM results indicate that the effect of reference price on consumers' perception of price is significant (hypothesis 3). Also, the effect of consumers' perception of price on consumers'

perception of sacrifice is significant (hypothesis 5). However, the results do not support the effect of consumers' perception of price on their perception of service quality (hypothesis 4). And so, consumers' perception of price is only influenced by reference price and has an effect on consumers' perception of sacrifice. Furthermore, the perceived price construct was found to have a SMC value of 0.334. Thus, indicating that perceived price plays an important part in the contribution to the explanation of the structural model in the study. From this, we can infer that consumers use the price they perceive to judge the amount of monetary sacrifice of the service and that the quality of the service is not perceived as important.

Perceived service quality is influence by consumers' perception of price and has an effect on consumers' perception of service value. The SEM results indicate that perceived service quality is insignificant in the study. More specifically, the SMC value of the perceived service quality construct was found to have a value of 0.006. Thus indicating that perceived service quality plays a peripheral role in the structural model and its contribution are insignificant in the study due to the insignificant findings of the individual paths leading to and from the perceived service quality construct (hypothesis 4 and 6). From this, we can infer that consumers perceptions of service quality has no important role in influencing their value perceptions of the service type selected.

Purchase intention is influenced by consumers' perception of service value and the SEM results indicate that the effect of consumers' perception of service value on purchase intention is significant (hypothesis 8). Also, the purchase intention construct was found to have a SMC value of 0.190. Thus,

indicating that purchase intention plays an important part in the contribution to the explanation of the structural model in the study.

7.4 CONTRIBUTIONS OF THE RESEARCH

This study merits on investigating the direct and indirect effects of consumers' perception of relational benefits on their perceptions of service value and purchase intentions. Prior research on consumers' perception of value has been limited to examining the effects of product quality and sacrifice (Dodds and Monroe, 1985; Monroe and Krishnan, 1985; Zeithaml, 1988; Rao, 1989; Monroe, 1990; Dodds, Monroe, and Grewal, 1991; Chang and Wildt, 1994; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000). However, when considering services, relationship marketing also plays an important role (Gronroos, 1990). In services, there is often no separation between production, delivery, and consumption, thus service encounters or the interaction between the customer and the marketer must be considered as part of the marketer's tasks. This task can often be fulfilled in a relationship with the customer. For a relationship to exist, both the firm and the customer must benefit (Czepiel, 1990; Gronroos, 1990; Barnes, 1994; Bitner, 1995; Berry, 1995; Gwinner, Gremler, and Bitner, 1998). However, prior research on relational benefits has focused primarily on the firm perspective (Reichheld and Sasser, 1990; McKenna, 1991; Reichheld, 1993; Evans and Laskin, 1994). It is only recently studies have examined the relational benefits from the customer perspective (Berry, 1995; Bitner, 1995; Sheth and Parvatiyar, 1995; Gwinner, Gremler, and Bitner, 1998; Patterson, 1999; Reynolds and Beatty, 1999). Although relational benefits from the customers perspective is receiving more attention, it is still in its early stages of

development (Sheth and Parvatiyar, 1995; Reynolds and Beatty, 1999) and calls have been made for further investigations into customer relational benefits (Berry, 1995; Bitner, 1995; Sheth and Parvatiyar, 1995; Gwinner, Gremler, and Bitner, 1998; Reynolds and Beatty, 1999). Gwinner et al. (1998) were amongst the first researchers to empirically investigate the types of relational benefits customers receive and suggested that customer relational benefits can be categorised into three types: confidence, social, and special treatment benefits. These authors provided some preliminary findings on the types of relational benefits customer receive and specifically call for causal research on the customer relational benefits.

Now since my research is focused on customer relational benefits and applies causal research, the study contributes to the existing relationship marketing literature. Also, investigating the effects of relational benefits on consumer's value perceptions for services is useful. In particular, I examine the effects perceived relational benefits have on consumer's perception of value directly and indirectly via reference price, perceived price, and perceived sacrifice. This is the major contribution of my study to the existing relationship marketing and pricing literature because no research has investigated the link between relational benefits and consumers value perception for products or services. Therefore, this study has merit in providing some preliminary insights on how customer relational benefits effect consumers perception of service value.

This study also merits in contributing to the extant knowledge of the pricing literature by examining services. More specifically, prior research in pricing primarily focused on consumer evaluations of products (Dodds and

Monroe, 1985; Monroe and Krishnan, 1988; Zeithaml, 1988; Rao, 1989; Monroe, 1990; Dodds, Monroe, and Grewal, 1991; Chang and Wildt, 1994; Dodds, 1995; Grewal, Krishnan, Baker, and Borin, 1998; Grewal, Monroe, and Krishnan, 1998; Teas and Agarwal, 2000) and it is only recently studies have been further investigated to examine services (Ostrom and Iacobucci, 1995; McDougall and Levesque, 2000). However, research in this area is still needed. Therefore, this study merits in contributing to the extant knowledge of the pricing literature by examining services.

7.5 RESEARCH IMPLICATIONS

Academically, this study has extended the extant relationship marketing and pricing literature by examining the direct and indirect effects of perceived relational benefits on consumers' perceptions of service value and purchase intention. However, this study only provides some introductory insights of this research area and the results are still preliminary. Thus, more research is needed to understand the importance of the different relational benefits.

Managerially, it is important for service marketers to be aware of the importance of relational benefits customer receives as the outcome of positive relationships may result in customer loyalty, positive word of mouth, relationship continuance, and customer satisfaction. More specifically, the ability to understand how consumers value relational benefits will enable firms to compete more effectively by fulfilling the needs of their target audience. In addition, relational benefits may be used as a means of differentiating amongst competitors and social benefits is particularly useful as a differentiation strategy because it is difficult to replicate. In this study, social benefit was found to be the only significant benefit that had a direct and indirect effect on consumers'

perception of service value. Special treatment benefit was significant when considering the indirect effect on consumers' perception of service value and confidence benefits was found to be insignificant for both direct and indirect effect. The findings indicate that service marketers, managers and employees must pay more attention on the social aspects of a relationship and less focus on the confidence benefits, in building customers' perceptions of value for the services examined in this study. However, due to the complex nature of services and the types of relational benefits involved, it is important for firms to pay detailed attention to all types of relational benefits as customers are all unique individuals. Thus, rating for the importance of the different types of relational benefits will vary. Therefore, service marketers, managers and employees should possess the market knowledge to be able to distinguish the importance of the three different types of relational benefits.

7.6 LIMITATIONS OF THE RESEARCH

As with all research, limitations of the research do exist. Firstly, this study analyses two service types together due to the small sample size. More research is needed to examine and further understand the different strengths of relational benefits have in different service types. Secondly, perceived service quality was found to be insignificant in the study. This may be the result of not fully capturing the perceived service quality construct. As a result, its contributions are insignificant to the explanation of the model.

7.7 DIRECTIONS FOR FUTURE RESEARCH

Since many service industries possess vastly different characteristics (e.g., credence v experience properties; high v low personal contact; customised

v standardised; continuous v discrete transactions, and so forth), it is reasonable to suggest that the nature and strength of relational benefits in impacting on the strength of a relationship may indeed vary by service type. Lovelock (1983) suggests that relational benefits may vary by service type.

In this study we have attempted to examine the differences between the two service types. We expected social benefits to be higher for hair salon due to the high degree of interpersonal contact and high level of customisation. As for photo processing, the service is of low personal contact and is very much standardised. Future research should examine the strength of relational benefits in impacting on the strength of a relationship as it may indeed vary by service type.

Reynolds and Beatty (1998) have attempted to demonstrate that relationships do provide benefits and value to customers, leading to satisfaction, loyalty, and word of mouth. However, more research is needed in this area and so future research should attempt to incorporate these outcomes of relationships.

In this study, perceived service value is a function of perceived sacrifice, perceived service quality, and perceived relational benefits. However, perceived service quality was found to be insignificant in the study and it may be the result of not fully capturing the perceived service quality construct in the study. Powpaka (1996) argued that both SERVQUAL and SERVPERF scales may not be sufficient enough in capturing the service quality construct since both of these scales focus only on the process quality attributes and not on the outcome attributes. In Powpaka's (1996) paper, outcome quality was found to be an important determinant of the overall service quality in general and in services with search and experience outcome quality attribute. Therefore, future research

should examine both process and outcome quality to fully capture the overall service quality construct.

In a study conducted by Sweeney et al., (1999), these authors extended previous research on perceived value by including the role of perceived risk and found that perceived risk has a significant role in value perceptions. Peterson and Wilson (1985) also argued that perceived risk should be included in the trade-off between perceived quality and perceived sacrifice because perceived risk is an essential part of the cost of acquisition of a product or service. Furthermore, prior research on sacrifice mainly focused on monetary sacrifice (Zeithaml, 1988; Dodds et al., 1991; Dodds, 1995; Teas and Agarwal, 2000) and it is only recently that both monetary and non-monetary sacrifice has been investigated (Cronin et al., 1997; Cronin et al., 2000). Cronin et al., (1997) conducted a study that includes perceived risk in measuring the sacrifice construct and these authors argued that perceived risk is a cost of acquisition and should be included to fully capture and understand sacrifices consumers make (Peterson and Wilson, 1985). Therefore, perceived risks should play an important role in effecting value perceptions and so future research should include perceived risks to better understand perceived value.

7.8 CONCLUDING REMARKS

The aim of this study was to examine the direct and indirect effects of the dimensions of perceived relational benefits on consumers' perceptions of service value and purchase intention. The indirect effects of perceived relational benefits on consumers' perceptions of service value and purchase intention was examined by incorporating consumers' perceptions of price and reference price into the study. Perceived service quality was also incorporated into this study and was

considered to act as a mediating variable between perceived price and perceived service value.

Eight hypotheses were proposed in the study and four are supported (hypothesis 3, 5, 7, and 8), two are partially supported (hypothesis 1 and 2), and two are not supported (hypothesis 4 and 6). The findings indicate that social benefits are relatively important in the direct and indirect effects on consumers' perception of service value. Special treatment benefits was only relevant when considering the indirect effects it has on price perceptions leading to perceptions of service value. Confidence benefits showed no significant effects on consumers' perception of service value, thus indicating that confidence benefits is not important in influencing consumers' perception of service value. The findings indicate that perceived service quality is insignificant in the study. More specifically, the SMC value of the perceived service quality construct was found to have a value of 0.006. Thus indicating that perceived service quality plays a peripheral role in the structural model and its contribution are insignificant in the study due to the insignificant findings of the individual paths leading to and from the perceived service quality construct.

The findings of the study do have limitations. Perceived service quality was found to be insignificant in the study. This may be the result of not fully capturing the perceived service quality construct in the study. In Powpaka's (1996) paper, outcome quality was found to be an important determinant of the overall service quality in general and in services with search and experience outcome quality attribute. Therefore, future research should examine both process and outcome quality to fully capture the overall service quality construct

The findings have both academic and managerial implications. Academically, this study has extended the extant relationship marketing and pricing literature by examining the direct and indirect effects of perceived relational benefits on consumers' perceptions of service value and purchase intention. However, this study only provides some introductory insights of this research area and the results are still preliminary. Thus, more research is needed to understand the importance of the different relational benefits. Managerially, it is important for service marketers to be aware of the importance of relational benefits customer receives as the outcome of positive relationships may result in customer loyalty, positive word of mouth, relationship continuance, and customer satisfaction. In addition, relational benefits may be used as a means of differentiating amongst competitors and providing social benefits is particularly useful as a differentiation strategy because it is difficult to replicate.

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APPENDIX A: PHOTO PROCESSING QUESTIONNAIRE

PART A

A1) You need to develop a film (36-exposure) and the price to develop a film can be broken down into two parts, processing fee and price per photo (3R). Assuming that the processing fee is standardised (price is the same wherever you go), then your main concern is the development price per photo. Please provide prices of what you believe you would pay per photo.

A1.1 What do you think would be a fair price per photo? _____

A1.2 What do you think will be the normal price per photo? _____

A1.3 What is your expected price per photo? _____

A2) Please read each statement below and use the following scale to indicate your level of judgement in terms of high or low by circling the appropriate number.

Very Low	Low	Slightly Low	Neutral	Slightly High	High	Very High
1	2	3	4	5	6	7

		very low						very high
A2.1	Compared to the fair price per photo you would pay, how would you judge this offering price?	1	2	3	4	5	6	7
A2.2	Compared to the normal price per photo you would pay, how would you judge this offering price?	1	2	3	4	5	6	7
A2.3	Compared to the expected price per photo you would pay, how would you judge this offering price?	1	2	3	4	5	6	7

A3) Based on the scenario given on page 1, imagine you are paying the price given. Answer the following set of questions below using the following scale to indicate the strength of your agreement or disagreement by circling the appropriate number.

Strongly Disagree	Disagree	Slightly Disagree	Neutral	Slightly Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

		strongly disagree						strongly agree
A3.1	The amount of money to pay to develop a film (36-exposures) is a lot of money to spend.	1	2	3	4	5	6	7
A3.2	The amount of money to pay to develop a film (36-exposures) is much more than I expected.	1	2	3	4	5	6	7

A3.3	Considering what I should expect to develop a film (36-exposures), this amount of money is a lot of money to spend.	1	2	3	4	5	6	7
A3.4	If I use this photo developer, I feel I would be getting my money's worth.	1	2	3	4	5	6	7
A3.5	If I use this photo developer, I think I would be getting good value for money I spend.	1	2	3	4	5	6	7
A3.6	This photo development appears to be a bargain.	1	2	3	4	5	6	7

PART B

Based on the scenario given on page 1, imagine you are paying the price given. Answer the following set of questions below using the following scale to indicate the strength of your agreement or disagreement by circling the appropriate number.

Very Low	Low	Slightly Low	Neutral	Slightly High	High	Very High
1	2	3	4	5	6	7

		very low						very high
B1	What is the likelihood that you would use this photo developer?	1	2	3	4	5	6	7
B2	If you were going to develop a film, what is the probability of using this photo developer?	1	2	3	4	5	6	7
B3	What are the chances of using this photo developer?	1	2	3	4	5	6	7

PART C

When answering this part of the questionnaire, please think about your usual photo developer. There is no right or wrong answers, please use the following scale to indicate the strength of your agreement or disagreement by circling the appropriate number.

Strongly Disagree	Disagree	Slightly Disagree	Neutral	Slightly Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

		strongly disagree						strongly agree
C1.1	When I have a problem, the photo developer shows sincere interest in solving it.	1	2	3	4	5	6	7
C1.2	The photo developer provides its service at the time it promises to do so.	1	2	3	4	5	6	7
C1.3	Employees of the photo developer are consistently courteous to me.	1	2	3	4	5	6	7
C1.4	Employees of the photo developer understand	1	2	3	4	5	6	7

my specific needs.

C2.1	I have more confidence the service will be performed correctly.	1	2	3	4	5	6	7
C2.2	I know what to expect when I go in.	1	2	3	4	5	6	7
C2.3	I am recognised by certain employees.	1	2	3	4	5	6	7
C2.4	I have developed a friendship with the photo developer employees.	1	2	3	4	5	6	7
C2.5	The employees of the photo developers know my name.	1	2	3	4	5	6	7
C2.6	I enjoy certain social aspects of the relationship.	1	2	3	4	5	6	7
C2.7	I get discounts or special deals that most customers don't get.	1	2	3	4	5	6	7
C2.8	I get better prices than most customers.	1	2	3	4	5	6	7
C2.9	They do services for me that they don't do for most customers.	1	2	3	4	5	6	7

APPENDIX B: HAIR SALON QUESTIONNAIRE

PART A

There is no right or wrong answers, please indicate your response by providing or circling the number that best describes your response.

A1) Please read each question below carefully and provide prices of what you believe you would pay for a haircut. Note that a haircut here refers to a normal shampoo, cut, and blow.

A1.1 What do you think would be a fair price for a haircut? _____

A1.2 What do you think will be the normal price for a haircut? _____

A1.3 What is your expected price for a haircut? _____

Suppose you need a haircut (shampoo, cut, and blow) and you decided to go to your usual hair salon for a haircut at a price of $XX **(If respondents are female = 100; male = 80).**

A2) Based on the scenario given above, specifically the offering price. Answer the following set of questions using the following scale to indicate your level of judgement in terms of high or low by circling the appropriate number.

Very Low	Low	Slightly Low	Neutral	Slightly High	High	Very High
1	2	3	4	5	6	7

		very low						very high
A2.1	Compared to the fair price you would pay for a haircut, how would you judge this offering price?	1	2	3	4	5	6	7
A2.2	Compared to the normal price you would pay for a haircut, how would you judge this offering price?	1	2	3	4	5	6	7
A2.3	Compared to the expected price you would pay for a haircut, how would you judge this offering price?	1	2	3	4	5	6	7

A3) Based on the scenario given on page 1 (above), imagine you are paying the price given. Answer the following set of questions below using the following scale to indicate the strength of your agreement or disagreement by circling the appropriate number.

Strongly Disagree	Disagree	Slightly Disagree	Neutral	Slightly Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

		strongly disagree						strongly agree
A3.1	The amount of money to pay for a haircut is a lot of money to spend.	1	2	3	4	5	6	7

A3.2	The amount of money to pay for a haircut is much more than I expected.	1	2	3	4	5	6	7
A3.3	Considering what I should expect to pay for a haircut, this amount of money is a lot of money to spend.	1	2	3	4	5	6	7
A3.4	If I use this hair salon, I feel I would be getting my money's worth.	1	2	3	4	5	6	7
A3.5	If I use this hair salon, I think I would be getting good value for money I spend.	1	2	3	4	5	6	7
A3.6	I. would consider this hair salon to be a good value.	1	2	3	4	5	6	7

PART B

Based on the scenario given on page 1, imagine you are paying the price given. Answer the following set of questions below using the following scale to indicate the strength of your agreement or disagreement by circling the appropriate number.

Very Low	Low	Slightly Low	Neutral	Slightly High	High	Very High
1	2	3	4	5	6	7

		very low						very high
B1	What is the likelihood that you would use this hair salon?	1	2	3	4	5	6	7
B2	If you were going to have a haircut, what is the probability of using this hair salon?	1	2	3	4	5	6	7
B3	What are your chances of using this hair salon?	1	2	3	4	5	6	7

PART C

When answering this part of the questionnaire, please think about your usual hair salon. There is no right or wrong answers, please use the following scale to indicate the strength of your agreement or disagreement by circling the appropriate number.

Strongly Disagree	Disagree	Slightly Disagree	Neutral	Slightly Agree	Agree	Strongly Agree
1	2	3	4	5	6	7

		strongly disagree						strongly agree
C1.1	When I have a problem, the hair salon show sincere interest in solving it.	1	2	3	4	5	6	7
C1.2	The hair salon provide its service at the time it promises to do so.	1	2	3	4	5	6	7

C1.3	Employees of the hair salon are consistently courteous to me.	1	2	3	4	5	6	7
C1.4	Employees of the hair salon understand my specific needs.	1	2	3	4	5	6	7
C2.1	I have more confidence the service will be performed correctly.	1	2	3	4	5	6	7
C2.2	I know what to expect when I go in.	1	2	3	4	5	6	7
C2.3	I am recognised by certain employees.	1	2	3	4	5	6	7
C2.4	I have developed a friendship with the hair salon employees.	1	2	3	4	5	6	7
C2.5	The employees of the hair salon know my name.	1	2	3	4	5	6	7
C2.6	I enjoy certain social aspects of the relationship.	1	2	3	4	5	6	7
C2.7	I get discounts or special deals that most customers don't get.	1	2	3	4	5	6	7
C2.8	I get better prices than most customers.	1	2	3	4	5	6	7
C2.9	They do services for you that they don't do for most customers.	1	2	3	4	5	6	7