

# Importance of Perceived Price and Perceived Value for Customers

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## Abstract

The objective of this paper is to find out whether perceived price increases perceived value and customer satisfaction and perceived value enhances customer satisfaction. Data is collected from 301 customers of telecommunication sector in Delhi. Results show that perceived price increases perceived value and customer satisfaction. Perceived value also helps in enhancing customer satisfaction.

## Keywords:

Perceived Price, Perceived Value, Customer Satisfaction, Telecommunication Sector

## Introduction

Post-liberalization has witnessed tremendous changes in the Indian telecommunication sector. Prior to economic liberalisation, this sector enjoyed a protected market and didn't gain any momentum. After liberalisation, telecommunication sector was opened for private players and left completely on the operation of market dynamics. Now, customers have right to choose among multiple service providers, as they have wide choice of services with the lowest tariffs in the world. India has not only the second largest but also the fastest growing telecommunication market in the world after China. Intense competition and continuously increasing consumer demands have led this sector to maintain the quality of service as it is a pre-requisite for survival. (Yankee Group, 2001) indicated that mobile operators estimate the cost of acquiring a new client at seven times more than the annual cost of retaining an existing subscriber on an average basis. Differentiation among products is easy because of tangibility but differentiation among services is difficult because of their unique characteristics. In order to attract customers, serve their needs and retain them, service providers and researchers are actively involved in finding the factors which satisfy them.

Hardly any research is conducted on telecommunication sector, which has studied, the impact of perceived price and perceived value on customer satisfaction and impact of perceived price on perceived value. This article aims to fill this void.

The remainder of this article is organized as follows. In the next section, literature review and research hypotheses are presented. After that methodology of research is presented. In the next part, hypotheses are tested using data collected in the context of telecommunication sector. Finally, conclusion of study is presented.

## Literature Review and Research Hypotheses

### *Customer Satisfaction*

Kotler (2000) expresses that satisfaction is a person's feelings of pleasure or disappointment resulting from comparing a product's perceived performance (or outcome) in relation to his or her expectations. Satisfaction is described as "an evaluation of an emotion (Hunt, 1977). According to Engel and Blackwell (1982, p. 501) it is, "an evaluation that the chosen alternative is consistent with prior beliefs with respect to that alternative.

### *Perceived Price and Customer Satisfaction*

Zeithaml (1988) has defined price as "what is given up or sacrificed to obtain a product" (p. 10). According to Jacoby & Olson (1977) price is distinguished as objective price and perceived price. Chang and Wildt (1994) defined perceived price as the consumers' perceptual representation or subjective perception of the objective price of the product / service. Various studies have found that price perceptions have significant influence on customer satisfaction (Varki and Colgate, 2001; Singh & Sirdeshmukh, 2000; Han and Ryu, 2009; Herrmann et al., 2007). This study, therefore, proposes that the perceived price has a positive impact on customer satisfaction.

H1-1: Perceived price has a positive impact on customer satisfaction.

### *Perceived Value and Customer Satisfaction*

Zeithaml (1988) defined perceived value "as the customer's overall assessment of the utility of a product based on perceptions of what is received and what is given." According to Monroe (2003), "buyers' perceptions of value represent a trade-off between the quality/benefits they perceive in the product relative to the sacrifice they perceive by paying the price". Perceived value is a trade-off between the benefits customers receive in relation to total cost which include the price paid plus other costs associated with the purchase (McDougall and Levesque 2000). The importance of value has been manifested by research indicating that value is an antecedent of customer satisfaction and loyalty (Dodds, Monroe, & Grewal, 1991; Oh, 2000). Cronin, Brady, and Hult (2000) investigated relationships among value, satisfaction, and loyalty in six different industries. The value was found to significantly predict satisfaction as well as loyalty.

This study, therefore, suggests that perceived value has a positive influence on customer satisfaction.

H1-2: perceived value has a positive impact on customer

satisfaction.

### *Perceived Price and Perceived Value*

According to Zeithaml (1988), value perceptions are considered to be the result of a cost-benefit trade-off. If benefit exceeds cost, it is considered as value to customer. Bolton and Drew (1991) have shown in their study that perceived price influence perceived value in the telecommunications industry. Varki and Colgate (2001) also found that perceived price has positive impact on perceived value.

This study, therefore, suggests that perceived price has a positive influence on perceived value.

H1-3: perceived price has a positive impact on perceived value.

## Research Methodology

Researcher uses primary and secondary data for this research. Primary data is collected from 301 customers of mobile subscribers in Delhi through convenience sampling. Customer satisfaction was measured using a three item scale developed by Cronin et al. (2000). Items were: My choice to avail this service is a wise one; I did the right thing when I chose this mobile service provider for its services; and Services of this mobile service provider are exactly same what I need. Perceived price was measured using three item scale developed by author for this study. Items were: The price of this mobile service provider is reasonable; The price of this mobile service provider does not have hidden charges; The price of this mobile service provider is easy to understand. Perceived value was measured by three items developed by author. Items were: I gain more from this mobile service provider than I give; This service provider offers attractive service costs as compared with other providers; This service provider gives more benefit as compared with other providers.

## Results

### *Confirmatory Factor Analysis*

Confirmatory factor analysis was performed using AMOS 16.0. Table 1 indicates fit measure of scale. Obtained chi-square value is found to be significant ( $p < .001$ ). The relative chi-square (CMIN/df) should be below than 3 (Kline, 1998). In our study, this value is 2.7 and fulfills the criterion. Because of the sensitivity of chi-square to large sample size, the other fit measures of the model are also considered. The measures (GFI, CFI, NFI) were close to 0.90, which suggests, the good fit of the model. Root mean square error of approximation (RMSEA) should be lower than .10. This criterion is also fulfilled in the study.

**Table 1: Fit measure of scale**

$\chi^2$	df	CMIN/df	GFI	CFI	NFI	RMSEA
66.27	24	2.7	.961	.968	.951	.071

### *Construct Validity and Reliability*

Convergent validity and discriminant validity help in establishing construct validity. Composite reliability of each construct was also calculated (Cronbach alpha  $> .60$ ). All the indicators had

significant loadings onto the respective latent constructs ( $p < 0.001$ ). In addition, the average variance extracted (AVE) for each construct is greater than or equal to 0.50, which further supports the convergent validity of the constructs (Table 2).

**Table 2: Convergent Validity**

Constructs	Measurement items	Standardized estimates	p-value	Reliability	AVE
Perceived Price	PP1	0.858	*	.66	0.5472
	PP2	0.422	*		
	PP3	0.853	*		
Perceived Value	PV1	0.781	*	.65	0.525
	PV2	0.726	*		
	PV3	0.662	*		
Customer Satisfaction	CS1	0.784	*	.77	0.7507
	CS2	0.944	*		
	CS3	0.864	*		

Note: \*Implies that the factor loadings are significant at  $p < 0.001$

It can be seen from Table 3, that the square root of the AVE values of perceived price, perceived value and customer satisfaction are more than the inter-construct correlations which supports the

discriminant validity of the constructs. Thus, the measurement model reflects good construct validity.

**Table 3: Discriminant Validity**

	PP	PV	CS
PP	0.73		
PV	0.15	0.72	
CS	0.58	0.44	0.86

Note: Diagonal elements in the correlation matrix of constructs are the square root of the AVE values; for discriminant validity to be present the diagonal elements should be greater than the off diagonal elements

#### *Empirical Testing of Hypothesized Paths*

Structural equation modeling is used to test the hypotheses. The fit measures of model are presented in Table 4. Obtained chi-square

value is found to be significant ( $p < .001$ ). The relative chi-square value, GFI, CFI, NFI and RMSEA fulfill the desired requirement.

**Table 4: Fit Measures of Model**

$\chi^2$	df	CMIN/df	GFI	CFI	NFI	RMSEA
66.27	24	2.7	.959	.966	.949	.073

Results in Table 5 indicated that perceived price has positive impact on perceived value and customer satisfaction. Perceived

value also has positive impact on customer satisfaction. These results have confirmed hypotheses 1, 2 and 3.

**Table 5: Results of Hypotheses Testing**

Hypothesized paths	Standardized path coefficients	p-value	Results
PP→PV	0.15	.034*	Accepted
PV→CS	0.36	.000* *	Accepted
PP→CS	0.53	.000* *	Accepted

Notes: \* \*Implies significant at  $p < 0.01$ ; \*Implies significant at  $p < 0.05$

## Conclusion

Telecommunication sector in India is in a growing stage and competition is really tough for this sector because of rapid change in technology. Price structure is complex and difficult to understand because of rapid change in schemes.

Customer satisfaction is the key to business survival. This research helps telecommunication service providers to work on improving price perception for customer satisfaction. Findings revealed that improved perceived price increases perceived value and customer satisfaction. If prices are perceived reasonable and fair by customers then it is likely to increase perceived value and customer satisfaction. Perceived value also shows positive impact on customer satisfaction.

This study is conducted in the capital of India. Therefore, results can not be generalized. This study has not considered demographics of customers and future studies should focus on demographics. Customer satisfaction will vary according to age as young generation is more exposed to technology than old generation.

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