

Perceived Relative Attractiveness Today and Tomorrow as Predictors of Future Repurchase Intention

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Abstract

Research pertaining to return on quality is primarily based on the disconfirmation of expectation paradigm using past experience as the key predictor of future intent. This paper uses perceived relative attractiveness today and tomorrow as predictors of intent.

Based on the theoretical model and data sampled we report three findings. First, perceived relative attractiveness today is the key driver of future intent in both business and consumer contexts. Second, in the business market expected future relative attractiveness has no impact on customer intent. Business customers use perceived quality of past and present deliverables as the primary qualifier of future repurchase intention. Third, in the consumer market both perceived relative attractiveness today and tomorrow have an impact on future intent. This finding implies that in order to uphold customer intent managing future customer expectations is as important as maintaining relative attractiveness today.

Key words: Customer satisfaction, Relative attractiveness, Customer intent, Services, Norway.

Introduction

In today's competitive markets marketers increasingly think of customer retention as key to relationship profitability; c.f. (Fornell, 1992; Reichheld & Sasser, 1990; Rust, Zahorik, & Keiningham, 1994; Rust, Zahorik, & Keiningham, 1996; Zeithaml, Berry, & Parasuraman, 1996). The disconfirmation paradigm (c.f. Oliver, 1980) which establishes satisfaction with previous interactions as predictor of customer loyalty is documented in most of these studies. In a complementing paradigm, equity theory, perception of relative fairness with the interaction is used as predictor of customer satisfaction and loyalty. In sum, the two leading paradigms used to predict future consumer intent and thus future cash flow are based on a hindsight perspective when predicting the future. In real life, however, we may experience situations where customers change patronage despite high degree of satisfaction as new information or knowledge may position other suppliers as being more attractive. Whereas the customer was satisfied with the supplier, choosing the same supplier again may create regret and thus dissatisfaction with the new information i.e. perceived relative attractiveness rather than absolute satisfaction predicts future intent. In other situations customers may remain loyal despite lack off relative attractiveness today as they expect the supplier to improve his offer in the near future, i.e. expectations about the future predicts future intent.

Surprisingly few, if any, CS/D-papers have incorporated relative attractiveness as a predictor of intent. The purpose of this paper is to investigate present and future relative attractiveness as predictors of future repurchase intention. A theoretical model focusing future repurchase intention, perceived relative attractiveness today and expected future relative attractiveness is developed. Next, the results of an empirical study, testing the model is presented. Finally, the implications of the findings are discussed.

The Conceptual Model

In the service marketing literature, future repurchase intention is recognized as a positive consequence of customer satisfaction (Anderson, Fornell, & Lehmann, 1994; Cronin & Taylor, 1992; Zeithaml, Berry, & Parasuraman, 1996). According to Rust & Oliver (1994) the most widely adopted of the theories of customer satisfaction is that of expectancy disconfirmation, in which satisfaction is viewed as largely based on meeting or exceeding expectations. The retrospective inference (Troye, 1990) embedded in the disconfirmation theory (Oliver, 1980) reflects the anticipated importance of historical events for customers' future repurchase intentions. This perspective is also found in other dominant theories used in satisfaction research for example attribution theory (Kelley, 1967), dissonance theory (Festinger, 1957) and equity theory (Homans, 1961). Common to all these theories is that customer satisfaction is a function of an after-the-fact evaluation of perceived service quality relative to a reference point (e.g. expectations or norms). In numerous studies, past absolute satisfaction has been used to predict intended consumer behavior, see for example (Fornell, 1992; Rust, Zahorik, & Keiningham, 1994; Rust & Zahorik, 1993). We will argue that relative satisfaction, (i.e. customers' perception of other real alternatives) rather than absolute satisfaction (i.e. disconfirmation of expectation with current alternative in isolation) is a driver of future intent. Further we will argue that customers' expecting the supplier to improve his offer in the near future may choose to remain with the supplier.

There are several reasons why perceived relative attractiveness today and tomorrow should be considered when predicting customer intent. First, a closer look at the link between customer satisfaction and future repurchase intention has indicated weak and sometimes nonexistent relationships between these constructs (Henning-Thurau & Klee, 1997). Second, while satisfied customers tend to be loyal, loyal customers are not

necessarily satisfied (Fornell, 1992). Third, research in the business-to-business market, indicate that the future is an important predictor of customer relations. Referred to as shadow of the future, extendedness i.e. anticipated open-ended future interactions and frequency of contacts were found to be positively associated with joint cooperation (Heide & Miner, 1992). In some service settings (e.g. insurance) quality may be difficult to evaluate. Service possessing credence quality (Daby & Karni, 1973) is known to be more difficult to evaluate than for example search quality (Nelson, 1970) and consequently perceived to involve higher risk for the customer (Zeithaml, 1988). Interacting with the same supplier over time, is a rational way for the customer to reduce perceived risk (Arndt, 1967). In a recent conceptual paper by Liljander & Strandvik (1995) a suggestion is made that the individual customer's anticipation about the potential future of a relation with a service provider may influence the customer's evaluation of the relation's quality today.

Based upon the above discussion, the conceptual model is illustrated in Figure 1 below.

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In the following we will discuss why customers' perception of the supplier's relative attractiveness today and expected relative attractiveness in the future may function as predictors of future repurchase intentions.

Relative Attractiveness Today

Market researchers distinguish between transaction-specific satisfaction and their global evaluation of the service (Holbrook & Corfman, 1985; Olshavsky, 1985). Whereas Fornell's work on the Swedish and American customer satisfaction barometer is based on accumulated satisfaction when predicting company performance on an aggregate level (Fornell, 1992; Fornell, Johnson, Anderson, Cha, & Bryant, 1996), Rust & Zahorik (1993) and Rust, Zahorik & Keiningham (1994) use transaction specific satisfaction when estimating return on quality on the firm level. In the literature there seems to be a consensus that on the firm level a transaction specific satisfaction measure is preferred when predicting future intent.

Recently, some researchers have started to address the "missing" link between customer satisfaction and customer retention (Henning-Thurau & Klee, 1997; Smith & Bolton, 1998). Despite the growing controversy about this link it is today a universal accepted notion that customer satisfaction is the most important driver of future customer intent. Ever since the first article on customer satisfaction by Cardozo in 1965, customer satisfaction has been subjected to comprehensive investigation. The definitions of customer satisfaction tend to fall into two different categories; customer satisfaction as a process or as an end-state (Oliver, 1993). For example (Bearden & Teel, 1983), (p. 21) consider customer satisfaction "a positive outcome from the outlay of scarce resources", a view reflecting customer satisfaction as a state-of-mind. However, it seems like most researchers define customer satisfaction in terms of a process. For example (Hunt, 1977) defines customer satisfaction as "the evaluation of emotions"(p. 460). While it is the "favorability of the individual's subjective evaluation" (p. 49) according to (Westbrook, 1980). Also, customer satisfaction may be understood as "summary psychological state resulting when the emotion surrounding disconfirmed expectations is coupled with the consumer's prior feelings about the consumption

experience” (Oliver, 1981), (p. 27). The most widely accepted of the process theories of satisfaction seems however to be that of “expectancy disconfirmation, in which customer satisfaction is viewed as largely based on meeting or exceeding expectations” (Rust & R.L.Oliver, 1994) (p.4). Based on this paradigm (Oliver, 1997), (p. 13) formulated the following definition of customer satisfaction, which serves as the frame of reference for our understanding of the construct: “ satisfaction is the consumer's fulfillment response. It is a judgment that a product or service feature, or the product or service itself, provided (or is providing) a pleasurable level of consumption-related fulfillment, included levels of under- or overfulfillment”.

From the above definitions it is understood that customer satisfaction is related to providing what is being sought to the point where fulfillment is reached, resulting in a subjective evaluation of emotions. The emotion occurs as a function of disconfirmation and relative output to input. The end result is a positive or negative feeling of fulfillment. We will claim that this fulfillment is not only absolute (that is meeting or exceeding expectations) but also relative to other real alternatives. In a recent study (Inman, Dyer, & Jia, 1997) documented that performance information about alternatives that were not chosen, can have a significant impact on post-choice valuation. Satisfaction with one service encounter may turn into dissatisfaction when the customer learns about the quality of the other supplier, which were not chosen. Regret may stimulated variety seeking or exit behavior (Hirschman, 1970) if customers have information about a similar, but better offer (Bell, 1982; Loomes & Sugden, 1982). Blending disconfirmation theory and regret theory, we will argue that perceived relative attractiveness today captures both accumulated and transaction satisfaction and thus may be used as a predictor of future intent.

Based on the above discussion we propose the following hypothesis for empirical testing:

H₁: Perceived relative attractiveness today will have a positive impact on future repurchase intention.

Expected Future Relative Attractiveness

Supplier's focus on customer loyalty implies that the two parties will interact over time. Whereas it is easy to understand why a supplier wants to interact with a customer over time, it is not obvious why a customer may want the same. According to Adam Smith "it is not from the benevolence of the butcher, the brewer, or the baker that we expect our dinner but from their regard to their own interest". In a single exchange perspective both parties will seek to maximize their own needs, even at the expense of the other party. This is in keeping with the notion of opportunism, i.e. self-seeking interest with guile (Williamson, 1975), or strategic behavior. However, when the parties anticipate that they will interact in the future and perceive these future interactions as being of value, Axelrod (1984) predicts that this will have an impact on each party's behavior today, i.e. remain with rather than exit from the relation. When both parties to an exchange assume an infinitely number of future interactions (Axelrod, 1984) claims that cooperation rather than defection will maximize the exchange's value for both parties. Relating the Prisoner's Dilemma to customer satisfaction research implies that negative disconfirmation of the other party's behavior may cause defection. In real life, however, we may observe that dissatisfied customers do not defect. This may be due to a lack of real alternatives (Fornell, 1992), or transaction costs associated with switching (Williamson, 1975). It may also be due to customers' knowledge of or expectations towards the supplier's improvement (e.g. the way the service is being delivered or produced) in the near future. Such information or anticipations about the future may reduce any incentive the customers have to switch patronage. This is in keeping with Boulding, Kalra, Staelin and Zeithaml (1993) who document that consumers' anticipation of what the supplier "will" or "should" do will impact their future intentions. In a business-to-business context (Heide & Miner, 1992) found that shadow of the future, i.e. expectations about the future, is a strong predictor of relations. According to Axelrod op

cit. cooperation can emerge and be stable if both parties perceive the future to be of importance relative to the present. Relative to the supplier, the customer may tend to evaluate future encounters as less important than present encounters and thus base his decisions about the future on experiences from past interactions with the supplier. A retention-focused supplier may try to make the future more important relative to the present by deliberately creating expectations about the future or inform the customers about planned improvements. Expectations of or information about the future “ can cast a shadow back upon the present and thereby affect the current strategic situation” (Axelrod op cit., p. 12). Consequently the customer may continue to interact with the supplier in the future despite a perception of other suppliers being relatively more attractive today.

Business customers compared to individual customers tend to spend more money when they make their purchase or investment decisions (e.g. buy more services, buy more expensive services), and use the service provider more intensively (i.e. frequency of interactions and number of people engaged in interactions). In response to this service suppliers often establish a key account manager who is responsible for the customer-supplier interaction. As business customers, compared to individual consumers, tend to be more involved in the interactions, business customers may have a better documentation of the service provider's behavior and service quality over time. In general they tend to be better informed about the quality of the various suppliers of one specific service.

Embedded in future repurchase intention lies satisfaction with the last encounter, the sum of previous experiences and knowledge of other alternatives. The history plus knowledge of other suppliers' offer is reflected in perceived relative attractiveness today.

Consequently, for business customers we believe that relative attractiveness today rather than expectation about the future is the stronger predictor of future repurchase intention. Based on the above discussion we propose the following hypotheses for empirical testing:

H₂: For individual customers, both perceived relative attractiveness today and expected future relative attractiveness will have a positive impact on future repurchase intention.

H₃: For business customers, perceived relative attractiveness today rather than expected future relative attractiveness will have a positive impact on future repurchase intention.

The Structural Model

Future repurchase intention is treated as a latent variable with multiple indicators measures (Bolton & Drew, 1991; Oliver, 1992). Perceived relative attractiveness today and expected future relative attractiveness is positively correlated with future repurchase intention. The theoretical framework can be summarized as:

$$\text{Future Repurchase Intention} = f_1(\text{perceived relative attractiveness today, expected future relative attractiveness, } \zeta_1)$$

ζ_1 = Error term capturing elements not included in the equations

The structural model analyzed is illustrated in Figure 2.

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Methodology

Research Design and Sample

Two groups of customers of a Norwegian life insurance company were studied. A representative sample of individual customers with the highest premiums (N=1400) and company customers (N=338) were drawn. The insurance industry was chosen, due to its high complexity and the relative extensive customer involvement required in the purchase of these services. Conducted by a professional marketing research bureau, the respondents were interviewed by telephone. Prospective respondents, who were not available on the first call, were called back three times before a substitute was picked. Each interview lasted approximately 15 minutes.

Measures

Perceived relative attractiveness today and expected future relative attractiveness is measured using one item each. Repurchase intention is measured by intentions to repurchase and perceived importance of continuing the relationship with the company. See Appendix A for an overview of the indicators.

A ten-points Likert scale was applied. The scale included positive values only (from 1 to 10). The questionnaire consisted of three different scales anchored by; “agree” to “disagree”, “very unlikely” to “very likely” and “important” to “not important”. Respondents were also provided with a “don't know” category in case of indifference or lack of knowledge.

Model

A structural model treating the constructs as latent variables operationalized and measured through observable multiple indicators was developed. The LISREL 8.12 (Jöreskog & Sörbom, 1993) was used to test and analyze the proposed model. The standardized parameter estimates for the indicators of the latent variables are found in Table C-1. According to the fit statistics listed in Table C-2, the models fit the data well.

Results

Samples' Characteristics

In order to provide evidence of past experience and competence in evaluating the service offer and the supplier, descriptive statistics is provided. Among the individual customers 79 percent had staid with the company for more than 10 years whereas 21 percent of the respondents had been with the supplier for 1 to 5 years. In the business-to-business context 9 percent of the respondents answered that their organization had staid with the insurance company for less than 2 years, 13 percent had staid on for 3 to 5 years and 78 percent had been with the supplier for more than 5 years. In both contexts 85 percent of the respondents considered themselves to have low expertise in evaluating life insurance services, while 15 percent considered themselves to have high expertise.

Analysis

H₁ is confirmed. Perceived relative attractiveness today has a positive impact on future repurchase intention in both contexts.

H₂ is confirmed. Perceived relative attractiveness today and expected future relative attractiveness have a significant impact on future customer intention in the business-to-consumer market.

H₃ is confirmed. Expected future relative attractiveness does not have a significant impact on future customer intention in the business-to-business market.

Discussion

The fact that perceived relative attractiveness today is a key driver of future intent for both consumers and organizations is interesting. It implies that not only absolute satisfaction (i.e. disconfirmation of expectations with the encounter) but relative to other forgone alternatives impacts future intent. This finding supports work pertaining to delighting the customer. Second, when predicting future repurchase intention for individual customers, expectations related to future attractiveness is an important factor. The implication of this finding is significant with regard to managing expectations. Third, we found that expected future relative attractiveness did not have an impact on repurchase intention in the business segment. This is in keeping with the predictions of the Prisoners Dilemma, business customers when deciding to remain with or exit from the relationship tend to value the past and present higher than information about or expectations of the future.

According to Simon (1957) organizations may be closer to act rationally in decision making. In this context satisfaction and perceived relative attractiveness today may be a suitable selection criterion for organizations wanting to institutionalize straight rebuys rather than modified rebuys (Anderson, Chu, & Weitz, 1987), which would be a lot more expensive. Finally, the higher weight put on historical encounters may reflect the buyers' competence on insurance services. With approximately 85 percent of the respondents reporting limited competence to evaluate current services, evaluating the attractiveness of future services may be even more difficult. Consequently business customers use previous and present encounters as decision criteria rather than the relative attractiveness of future encounters. Individual customers are believed to be more involved in the initial buying process since selecting wrong insurance company may hurt themselves or their closest family, i.e. adverse selection. Time and effort invest in the

pre and post contractual phase may be perceived as an investment that has no value outside the existing relation. Perceived hazard and costs associated with changing patronage may cause the individual customer to upgrade the value of future interactions relative to business customers. Something, which will stimulate future repurchase intention despite lack of perceived relative attractiveness today.

Managerial Implications

Creating and maintaining a loyal customer base requires different approaches in the business-to-business and in the business-to-consumer segment. Common to both contexts is that customer satisfaction drives customer loyalty. However, customer satisfaction within the disconfirmation paradigm is an absolute performance measure of current service offer. We have argued that customer intent is a function of perceived relative attractiveness rather than absolute satisfaction, i.e. exit or switching behavior may be triggered independent of my degree of satisfaction today if customers perceive other real alternatives to be better. Consequently customer satisfaction as a predictor of customer intent is relative to other offers rather than as an absolute performance evaluation of current offer. Further we have introduced expectations about future attractiveness as a predictor of intent. This is an important extension of the disconfirmation paradigm, which only uses past performance evaluation as a predictor of future intent.

Continued interactions, i.e. future repurchase intention, in the business-to-business segment is best nurtured by providing a service offer today which is perceived by the customers as being relatively more attractive than other options. These customers evaluate the present higher than the anticipated value of future interactions. Documenting services of high quality and consistent behavior today will have a stronger

impact on the customers' willingness to engage in future interactions than promises about the future. This is in keeping with one study, which showed that the salesperson has an important role in the continuance of established business-to-business relationships (Biong & Selnes, 1996). For example empowering key account managers with the necessary authority to make decisions on behalf of the company may improve the supplier's responsiveness to customer needs e.g. (Rust, Zahorik, & Keiningham, 1996) and thus stimulate repurchase intentions through customer satisfaction.

Managing consumers' expectations related to the company's relative performance in the future becomes an issue in securing future repurchase intention in the business-to-consumer context. According to Zeithaml, Berry and Parasuraman (1991), expectations may be divided into three different levels; desired, adequate, and predicted service. Zeithaml and Bitner (1996) p. 45) suggest that; "ineffective management of customer expectations", "over-promising" and "inadequate horizontal communications" are factors contributing to the customers having the wrong kind of expectations to the service provider. Managers should therefore focus on communicating as clearly as possible, the service provider's vision and business mission, so that customers can form rational expectations about the supplier's present and future service encounters. The supplier can do this by communicating their long-term commitment to its customers, and society, make unique investments, and provide service guarantees. Companies making unique investments, i.e. investments which cannot be employed elsewhere (Williamson, 1985) will increase the company's exit barriers and thus signal a long-term commitment toward society or the customers. Guaranteeing customer satisfaction may function as a contract between the two parties (e.g. we will agree to agree if we disagree). Asset specificity in the form of unique investments (Williamson, 1979) and customer contracts may stimulate future interactions despite loss of perceived relative attractiveness today.

The customers know the supplier is committed to them, and thus expects him to make changes to compensate for perceived loss of attractiveness.

Summary

In this paper we have argued that customer intent is driven by perceived relative attractiveness of the supplier and service offer and not only by absolute satisfaction with the same. Further, we have discussed the importance of expectations about the future as predictor of customer intent. Finally, we have reported and discussed three findings. First, perceived relative attractiveness today is the key driver of future intent in both business and consumer contexts. For managers of service companies this motivates investments in service quality or loyalty programs in order to wow the customer today. Key is to create customer perception of positive attractiveness relative to the real alternatives. Second, expected future relative attractiveness has no impact on customer intent in the business-to-business segment. For managers of business services this implies that past and present experiences as a foundation for perception of current attractiveness, predicts repurchase intentions. Third, perceived relative attractiveness today and expected future relative attractiveness both have an impact on future intent in the consumer market. For managers of consumer services, this finding implies that managing not only present but also future expectations is key to customer loyalty.

Limitations

As one of the goals of this study was to isolate and compare perceived relative attractiveness and expected future relative attractiveness, a very simple conceptual model was developed. It may therefore be that these findings are not applicable to other settings where more complex models are tested. Although, it may very well be that this simplicity is its strength. Another issue, which is questionable, is the operationalization

of perceived relative attractiveness today and expected future relative attractiveness. One could argue that using multiple indicators might improve the measure. Also, a limitation in this study is the dependent variable future repurchase intention. Due to market imperfections it is possible that customers will repurchase or extend their relationship without perceiving the supplier as being relatively more attractive today or in the future. It is however, not as likely that dissatisfied customers will be loyal in the sense that they will recommend the service provider to family and friends or otherwise express any warm feelings for the service provider to their environment.

Future Research

Future research may be directed usefully toward exploring the differences between the business-to-business and the business-to-consumer market. In addressing this divergence, perceived relative attractiveness today should be operationalized using multiple indicators. As this study was an attempt to explain some of the residual variance in the retention construct, other variables should be included in a further attempt to explain why customers repurchase and extend their relationship with a service provider. In future research, one should also consider using customer loyalty as the dependent variable in order to establish whether expected future relative attractiveness has the same or a different effect as compared to the effect it has on future repurchase intention.

Appendix A

Measures

Relative attractiveness today in the business-to-business context/

business-to-consumer:

1. To what extent do you agree or disagree that your insurance company today represents a better alternative than others you have considered.

Expected future relative attractiveness business-to-business/

business-to-consumer:

1. Compared to other insurance companies, to what extent do you agree that your insurance company will be a much better alternative in the future than?

Future repurchase intention business-to-business:

1. How likely or unlikely is it that your organization will continue to use this insurance company in the future?
2. How important is it to your organization to continue the relation with this insurance company?

Future repurchase intention business-to-consumer:

1. How likely or unlikely is it that you will continue to use your insurance company in the future?
2. How important is it to you to continue your relationship with your insurance company?

Appendix B

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Using LISREL 8.12 serves several advantages when both measurement and latent construct linkages are represented and tested. In these analyses Hair, Anderson, Tatham, & Black (1992) find the precision and communication of the model to be enhanced.

Two different estimation techniques were used to test the model's resilience: Maximum likelihood (ML) and General Least Squares. Both estimation techniques provided the same paths and the same range of T-values, estimates and fit statistics. This is an indication of good fit (Olsson, 1996). See Table D-1 below.

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In accord with Hair, Anderson, Tatham, & Black (1992) researchers are encourage to employ one or more measure from each of the classes of goodness-of-fit i.e. absolute, incremental and parsimonious fit. Of the absolute fit measures, Chi square is the most fundamental one. Of the absolute fit measures applicable the RMSEA is used. RMSEA i.e. root mean square error of approximation, whose values ranging from .0 to .05 or .08 are deemed acceptable (Hair, Anderson, Tatham, & Black, p. 685).

Appendix C

Influences of Endogenous Variables on Exogenous Variables

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Appendix D



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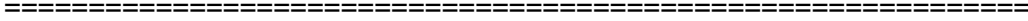


Table B-1

**Standardized parameter estimates for the indicators of the
latent variables in the model**

	Business-to-business market	Business-to-consumer market
Future repurchase intention λ_{11}	.71	.65
Future repurchase intention λ_{12}	.61	.70

Table B-2

Fit Statistics for the Structural Model

Goodness of Fit Statistics	Business-to-business Market	Business-to-consumer Market
Chi-square; df =1	.15 P-value = .69429	.17 P-value = .68003
RMSEA	.00	.00

Table C-1

**The Impact of Perceived Relative Attractiveness Today and Expected Future
Relative Attractiveness on Future Repurchase Intention**

Parameter estimates	Future Repurchase Intentions business-to-business	Future Repurchase Intentions business-to-consumer
Perceived relative attractiveness today	.47 (0.09) t=5.03	.40 (0.04) t=10.43
Expected future relative attractiveness	ns	.34 (0.04) t=9.13

T-values above 1.65 are significant at the .1 level, t-values above 1.96 are significant at the .05 level, and t-values above 2.57 are significant at the 0.01 level. Figures in () are error terms. ns = not significant at any level.

Simple correlation between the predictor variables are .5 and .65 in the consumer and business context respectively.

Figure 1

The Conceptual Model

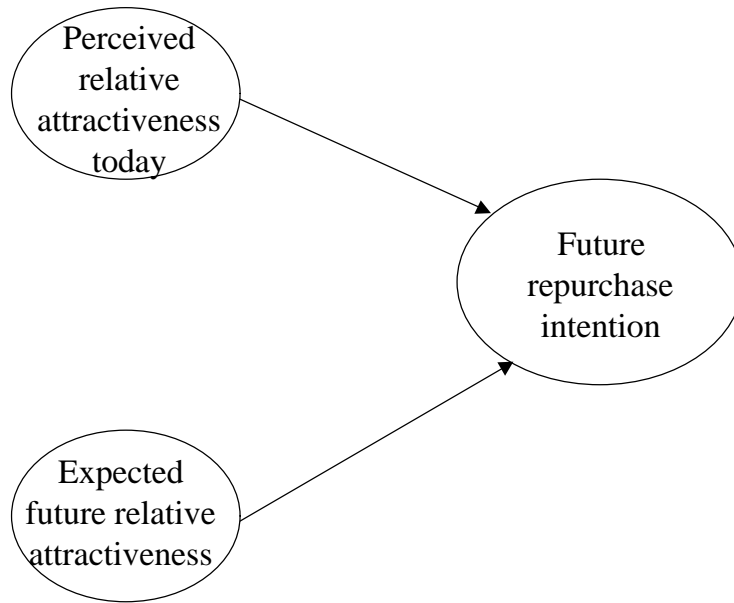
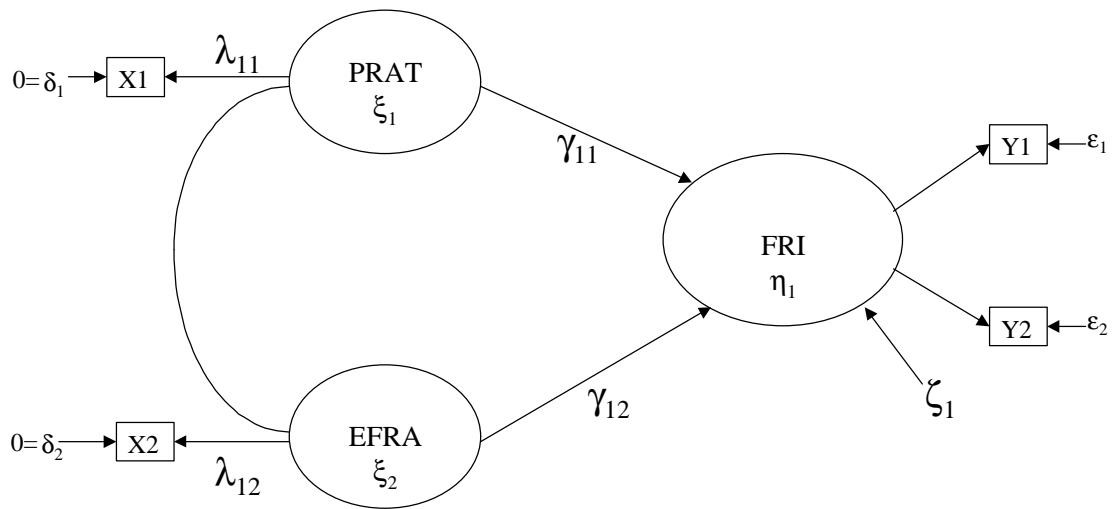


Figure 2
The Structural Model



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