An Integrated Model of Reference Prices and Their Impact on Satisfaction

Felix Tang, Hang Seng School of Commerce, Hong Kong, China
Jianmin Jia, Chinese University of Hong Kong, Hong Kong, China

This article develops a satisfaction model that incorporates the concepts of types of reference prices, perceived fairness, retrospective regret, and disappointment. An experiment was conducted to generate the price variations along the consumer, firm, and time dimensions of reference price. The finding suggested that the influence of reference prices on satisfaction is mediated by fairness, regret, and disappointment. The influence of across-consumer reference price on customer satisfaction is larger than that of across-time or across-firm reference price. The finding also indicated that existing satisfaction models that ignore regret and models that only measure regret may have inflated estimators.

[to cite]:

[url]:
http://www.acrwebsite.org/volumes/15047/volumes/v37/NA-37

[copyright notice]:
This work is copyrighted by The Association for Consumer Research. For permission to copy or use this work in whole or in part, please contact the Copyright Clearance Center at http://www.copyright.com/.
An Integrated Model of Reference Prices and their Impact on Satisfaction
Felix Tang, Hang Seng School of Commerce, Hong Kong
Jianmin Jia, The Chinese University of Hong Kong, Hong Kong

EXTENDED ABSTRACT

The Motivation

This article develops a satisfaction model that incorporates the concepts of the types of reference prices, perceived fairness, retrospective regret, and disappointment. Previous studies have examined whether reference prices lead to consumer satisfaction (e.g., Bolton and Lemon 1999; Fornell et al. 1996; Mittal, Ross, and Balasare 1998; Varki and Colgate 2001; Voss et al. 1998); however, how reference prices lead to satisfaction remains unclear for two reasons. First, except for Voss et al. (1998), causality cannot be established when prices are not manipulated directly in the study. Second, except for Bolton and Lemon (1999), the underlying mechanism driving the relationship has not been examined.

The exploration of how reference prices influence satisfaction leads to two research questions. The first question concerns the relationships between different types of reference prices on the antecedent of satisfaction (i.e., fairness, regret, and disappointment). Inman, Dyer, and Jia (1997) define regret and disappointment according to the type of comparison. Their findings suggest that each antecedent is influenced by a specific type of reference prices. However, Bolton, Warlop, and Alba (2003) find that perceived fairness can be influenced by different types of reference prices, such as prices comparing across consumers and prices comparing across time. Their findings suggest that each antecedent may be influenced by multiple types of reference prices. Clarifying these contradicting predictions allows a better understanding of reference prices and satisfaction. The second question concerns the explanatory power of fairness, regret, and disappointment, and the robustness of existing model without one or more of these antecedents. Whether satisfaction can be adequately explained by one, two, or all of the antecedents is both theoretically and practically important.

The objective of this article is to develop an integrated model to capture the influence of different types of reference prices influence consumer satisfaction. This article adopts Bolton et al.’s (2003) transaction space framework and proposes that the influence of reference prices on satisfaction can be separated into three types: across-time reference price, across-consumer reference price, and across-firm reference price. The levels of reference price are manipulated to draw causal inference. Furthermore, disappointment, fairness, and regret are included in the model to examine if they can moderate the effect of reference price on satisfaction.

The Conceptual Framework

An integrated model must be able to encompass the influence of different types of reference prices on satisfaction. This article transforms Bolton et al.’s (2003) transaction-space framework into a new reference price typology. Our model adopts the consumer (across-consumer reference price), firm (across-firm reference price), and time (across-time reference price) dimensions and relates them to fairness, regret, and disappointment.

Disappointment is a cognition-laden and psychological reaction to an outcome that falls below one’s expectation (Bell 1985). Perceived fairness is a judgment that the distribution of resources is based on the principle of equity, equality, and needs according to the distributive justice theory (Deutsch 1975). Regret is an unpleasant, cognitively determined, backward-looking emotion experienced when realizing or imagining that the present situation would have been better if actions had been done differently (Zeelenberg and Pieters 2007). The effects of disappointment, perceived fairness, and retrospective regret on consumer satisfaction have been independently demonstrated in previous studies (Bolton and Lemon 1999; Darke and Dahl 2003; Taylor 1997).

The relationship between fairness and regret and the relationship between fairness and disappointment were freed in the model estimation. The fairness-regret relationship was suggested by Tang and Jia (2007) that consumers are motivated to accept responsibility and such cognitive appraisal leads to the experience of regret. The fairness-disappointment relationship was hinted by Bell (1985) that one may feel disappointed at receiving such an unexpected, unfair outcome.

The Experiment

An experiment with a 3 (across-consumer reference price: favorable, same, unfavorable) x 3 (across-firm reference price: favorable, same, unfavorable) x 3 (across-time reference price: favorable, same, unfavorable) between-subjects factorial design was conducted to generate the price variations along different dimensions of reference price. The experiment was scenario-based, describing an Internet shopping experience of a DVD movie. Six-hundred-seventy undergraduate students participated in this study. All dependent variables were measured on a multi-item, seven-point Likert scale. The manipulations were successful.

The Findings

The proposed model is examined using structural equation modeling. Confirmatory factor analysis indicated excellent fit of the measurement model ($\chi^2=87.25$, df=47, CFI=.99, RMSEA=.038, SRMR=.020). Reliability of and discriminant validity among the constructs were also established. The proposed model fit the data well ($\chi^2=112.62$, df=51, CFI=.97, RMSEA=.045, SRMR=.025). The structural model suggests that perceived fairness, retrospective regret, and disappointment mediate the effect of reference price on satisfaction. Several nested models were also examined for model comparison. The findings in model comparison suggest that the impact of reference prices on satisfaction is type-dependent. That is, the influence of across-consumer reference price on customer satisfaction is larger than that of across-time or across-firm reference price. Our findings support Inman et al. (1997)’s conceptualization of regret and disappointment; however, the findings do not support their one-to-one mapping assumption from the types of reference prices to the antecedents of satisfaction.

The findings in the model comparison suggest that the model with all three antecedents of satisfaction, as well as the model with fairness and regret and the model with disappointment and regret, provide a good fit for the data. The other seven alternative models fit the data significantly worse and the estimators are directionally larger than the corresponding estimators in the proposed model. This observation hints that models ignoring one or more antecedents of satisfaction may have inflated the predictive power of other antecedents on satisfaction. Specifically, satisfaction models that ignore regret (e.g., Feinberg et al. 2002) and models that only measure regret (e.g., Tsios and Mittal 2000) may have inflated estimators. The paths from regret or fairness to satisfaction in these models should be interpreted with caution.
REFERENCES