The Effect of Customer Perceived Value on Word of Mouth and Loyalty in B-2-B Marketing

Mohammad Ali Abdolvand and Abdollah Norouzi
Department of Business Management, Science and Research Branch,
Islamic Azad University, Tehran, Iran

Abstract: The purpose of this study focuses on the role of Customer Perceived Value (CPV) in building Word of Mouth (WOM) and loyalty at the Business to Business (B2B) context. More specifically, we examine the proposition that customer perceived value in service providers with unique antecedents and consequences. Data were collected in the main study by measuring the participants through face-to-face interviews and questionnaires. The subjects were that used software service for organizational application such as accounting, quality control and Customer Relationship Management (CRM) and etc. software. The subjects were 187organizational customers of these services. Result show that CPV is an essential factor in business to business marketing. The present study showed that CPV influences WOM and customer loyalty and leads to a situation in which customer in addition to act as the firm voice among colleagues and other firms, also considers maintaining his/her interactions with firm. In relation to factors influencing customer perceived value, corporate reputation has the most effect (Standardized Loading = 0.57) and flexibility with standardized loading of 0.35 is the second most important factor showing importance of relationship with customers in B2B market.

Keywords: Business to business marketing, company trust, corporate reputation, flexibility, information sharing, Iran

INTRODUCTION

The study of customer value is becoming significantly more important, both in research and in practice (Graf and Maas, 2008). Although customer value has become the object of much investigation only during the last few years, the value concept has always been "the fundamental basis for all marketing activity" (Holbrook, 1994). Delivering superior value to customers is an ongoing concern of management in many business markets today and the value concept is considered one of the most popular constructs among business managers and academia (Ravald and Gronroos, 1996). Market share and ultimately corporate profitability depend heavily on perceived customer value (Huber *et al*., 2007). Holbrook (1994) goes as far as stating that value can be considered '. . . the fundamental basis for all marketing activities'.

Identifying and creating customer values regarded as an essential prerequisite for long-term company survival and success (Porter, 1996; Woodruff, 1997). Understanding the way customer's judge and value a service or product is crucial to achieving a competitive advantage. Scientists and practitioners have recognized the power of the customer value concept in identifying value for customers and managing customer behavior (Graf and Mass, 2008).

Research in the context of business-to-business markets, however, has been limited. In industrial marketing, the value construct often has been neglected, leaving it to other disciplines, such as engineering, production management, or strategic management. Textbooks on business-to-business marketing still frequently limit the concept to the pricing chapter when comparing value pricing with other, more traditional pricing methods, such as cost-plus pricing or probability pricing (Ulaga and Chacour, 2001).

The purpose of this study focuses on the role of customer perceived value in building word of mouth and loyalty at the business to business context. More specifically, we examine the proposition that customer perceived value in service providers with unique antecedents and consequences.

Previous research into business to business marketing has emphasized the relationship between customer perceived value and other factors such as corporate reputation. For example, Cretu and Brodie (2007) show that company reputation, product or service perceived quality and prices and costs had an influence on

Corresponding Author: Mohammad Ali Abdolvand, Department of Business Management, Science and Research Branch, Islamic Azad University, Tehran, Iran, Tel.: +98)21-44860966; Fax: +98)21-44869705

perceptions of customer value. This research confirmed that the brand's image has a more specific influence on the customers' perceptions of the quality while the company's reputation has a broader influence on perceptions of customer value and customer loyalty. Brodie *et al.* (2009) point out that the aspects of service brand (brand image, company image, employee trust) plus service quality and costs had a effect on customer perceived value in services contex. Roig *et al.* (2006) found that Perceived value was a multidimensional construct composed of six dimensions: functional value of the establishment, functional value of the personnel; functional value of the service; functional value price; emotional value; and social value. Hansen *et al.* (2008) showed that corporate reputation had substantially stronger effect on customer perceived value than theinformation sharing, distributive fairness and flexibility. This indicates that when the intrinsic nature of service performance is hard to evaluate, corporate reputation works as substantial shorthand for value. Also, customers' perceptions of economic value increase their likelihood of recommending the supplier and reduce their tendency to seek information about alternatives. In other research Patterson and spreng (1997) found perceived value to influence intentions directly (usually in a pre-purchase situation and thus neglecting satisfaction), the findings clearly showed value is completely mediated through satisfaction in influencing repeat purchase behavior.

LITERATURE REVIEW AND RESEARCH HYPOTHESIS

Customer perceived value: While the marketing literature contains a variety of definitions stressing different aspects of the concept, Ulaga (2003) four recurring characteristics identified:

- Customer value is a subjective concept (Kortge and Okonkwo, 1993)
- It is conceptualized as a trade-off between benefits and sacrifices (Zeithaml, 1988)
- Benefits and sacrifices can be multifaceted (Grisaffe and Kumar, 1998)
- Value perceptions are relative to competition (Gale, 1994)

In short, customer value is generally defined as the trade-off between the benefits (what you get) and the sacrifices (what you give) in a market exchange (Zeithaml, 1988).

Typically, most definitions and conceptualizations focus on the economic worth of tangible outcomes (Hansen *et al.*, 2008). Anderson and Narus (1990) suggest
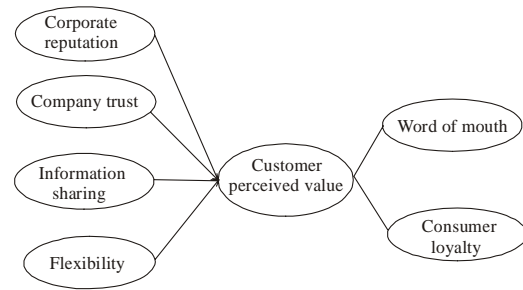

Fig. 1: Research conceptual model

a broader conceptualization and define value as "…the worth in monetary terms of the economic, technical, service and social benefits a customer receives in exchange for the price it pays for a product offering". Anderson *et al.* (1993) define value in business markets as ''the perceived worth in monetary units of the set of economic, technical, service and social benefits received by a customer firm in exchange for the price paid for a product offering, taking into consideration the available alternative suppliers'offerings and prices.'' Flint *et al.* (1997) state that value can be approached in three different directions: values, desired values and value judgements. According to this classification, "value" in a business context is defined as "centrally held enduring core beliefs, desired end-states, or higher order goals of the individual customer or customer organization that guide behavior". Desired customer values, to the contrary, are "the customers' perceptions of what they want to have happen in a specific kind of use situation, with the help of a product or service offering, to accomplish a desired purpose or goal" (Woodruff and Gardial, 1996). A value judgement is "the customer's assessment of the value that has been created for them by a supplier given the trade-offs between all relevant benefits and sacrifices in a specific-use situation" (Flint *et al.*, 1997).

Corporate reputation and customer perceived value: Conceptual model showed in Fig. 1. In this study corporate reputation, information sharing and flexibility considered as antecedents and word of mouth (WOM) and loyalty as consequences.

Corporate reputation can be defined as "perceptions held by people inside and outside a company" (Fombrun, 1996). It is therefore a source of information about a company's trustworthiness. Because influencing these perceptions in a positive manner requires financial and non-financial efforts, corporate reputation can be seen as an asset (Michaelis *et al.*, 2008).

Empirical findings indicate that corporate reputation positively influences a number of customer-outcome variables (Walsh and Beatty, 2007), including CPV (Hansen *et al.*, 2008; Brodie *et al.*, 2009; Cretu and

Brodie, 2007).With respect to service characteristics, Wang *et al*. (2003) argue that corporate reputation is of specific importance in service industries "because the pre-purchase evaluation of service quality is necessarily vague and incomplete". Thus, it can be assumed that service firms, especially, can benefit from the effects of corporate reputation (Fombrun, 1996; Walsh and Beatty, 2007).These difficulties should persist in the case of credence properties, even in ongoing service relationships. Facing such performance ambiguity, a good reputation will serve as a proxy for the level of service quality. As such, corporate reputation might lead the customer to trust that the received benefits are comparatively good, thereby increasing the benefit side of CPV. Also, the perceived risk associated with performance ambiguity and information asymmetry will decrease in comparison to other suppliers, thus reducing monitoring costs. Hence, due to the suggested impact on the level of transaction costs derived from monitoring, it is suggested that corporate reputation might decrease the cost side of CPV (Hansen *et al*., 2008). Thus:

H1: Corporate reputation has a positive effect on customer perceived value.

Company trust and customer perceived value: Trust is considered to be an important dimension in services marketing. Berry and Parasuraman (1991) assert that trust is a necessary condition in effective service marketing as the customer must buy a service prior to experiencing it. Additionally, customer perceptions of trust are linked to customer perceptions of quality (Iverson *et al*., 1996). Customer trust is more localized and experience based and reflects the customer's interactions with the company and employees in delivering the service experience. Hence it relates specifically to customers' experiences with the management policies and practices and employee behavior (i.e., delivering the promises) (Brodie *et al*., 2009). Sirdeshmukh *et al*. (2002) focus specifically on the influence of customers' trust on customer value and customer loyalty. For the clothing retailer they find employee trust influences customer value, while for the airline service they find trust in the company influences customer value. Thus:

H2: Company trust has a positive effect on customer perceived value.

Information sharing and customer perceived value: The concept of information sharingwas defined as the extent to which the service firminforms its customers about features relevant for the relationship (Noordewier *et al*., 1990). Information sharing brings about a great advance in business connection (Yu *et al*., 2001) such as costs reduction. Information sharing enables the customer

to be prepared or take necessary precautions should the supplier's predictions be brought to fruition. Hence, information sharing might reduce maladaption costs and increase the perceived benefit of the relationship. Moreover, information shared with the customer might reduce the customer's perception of the service's performance ambiguity, enabling the customer to more accurately assess the benefits received, thereby increasing the customer's ability to detect supplier opportunism (Hansen *et al*., 2008). Hence information sharing increase benefits for customers. Thus:

H3: Information sharing has a positive effect on customer perceived value.

Flexibility and customer perceived value: Flexibility implies the supplier's ability to adapt to situations where the customer has needs and wants that deviates from the norm or existing standards (Noordewier *et al*., 1990). Thecorporate ability to adapt to changes in a short time will be an indication of flexibility and will show that the corporate is responsive to changing customer needs. Hence, flexibility and responsiveness are closely related terms, because responsiveness deals with the willingness of the service provider to help customers and provide prompt service. When customers face this kind of flexibility and responsiveness, the perceived value of the relationship partner is likely to increase because economic losses faced due to unexpected external changes might be reduced (Hansen *et al*., 2008). Thus:

H4: Flexibility has a positive effect on Customer perceived value.

Customer perceived value and word-of-mouth: Word-of-mouth is a process of personal influence, in which interpersonal communications between a sender and a receiver can change the receiver's behavior or attitudes (Sweeney *et al*., 2008).Word-of-mouth is conceived of as volitional post-purchase communications between customers. Moreover, word-of-mouth is believed to follow from an evaluation of how the acquired service or product performs. Extending these assumptions, it is argued that customers who find their supplier to deliver satisfactory levels of value will recommend their partner to others to a much larger extent than if the relationship is less valuable (Dick and Basu, 1994). If the supplier delivers great value, customers might get recommended to others as an attempt from the customer to reciprocate the benefits perceived to grow out of the relationship (Hansen *et al*., 2008). Thus:

H5: Customer perceived value has a positive effect on word of mouth.

Table 1: Reliability of variables

Variables	Alpha score	Composite reliability	AVE
Corporate reputation	0.71	0.80	0.60
Company trust	0.88	0.90	0.61
Information sharing	0.70	0.82	0.66
Flexibility	0.87	0.90	0.58
Customer perceived value	0.91	0.93	0.80
Word-of-mouth	0.93	0.94	0.69
Customer loyalty	0.92	0.94	0.80

Customer perceived value and loyalty: Research in both consumer and industrial environments provides strong support for the positive relationship between customer perceptions of value and customer loyalty. For example, in a business-to-consumer retail setting across both product and service retail offerings, Cronin *et al*. (2000) find a strong relationship between customer value and customer behavioral intentions. Sweeney and Soutar (2001) in a study, find a significant relationship between customer value and attitudinal and behavioral intentions in retail context. More recently in a tourism based setting, Duman and Mattila (2005) find that perceived value is a strong predictor of behavioral intentions when measuring the holistic service experience for cruise vacation travelers. Hansen *et al*. (2008) indicated customer perceived value had a positive effect on search for alternatives (loyalty measures) in business-to-business context. Thus:

H6: Customer perceived value has a positive effect on loyalty.

METHODOLOGY

The field of the study covers the industrial customer software services company in Iran. This company is very famous in software industry in Iran. Data were collected in the main study by measuring the participants through face-to-face interviews and questionnaires. The subjects were that used software service from this company for organizational application such as accounting, quality control and customer relationship management (CRM) and etc. software. The subjects were 187organizational customers of these services.

The pretest, which measured reliability, asked 35 companies that they use software services to answer questionnaires. SPSS data analysis indicated that the Cronbach's α of the questionnaires was 0.912. The findings for the Cronbach's alpha shows that the reliability coefficients were acceptable (above 0.6) for all dimensions (Table 1).

The composite reliability is good for all constructs, while average variance extracted (AVE) is above the cut-off value of 0.5 for all variables (Table 1).

Measurements: Based on previous researches such as Hansen *et al*. (2008) and Brodie *et al*. (2009) corporate reputation were measured using Selnes (1993) scale. The measurement scale for trust was Sirdeshmukh *et al*. (2002) scale that used in their airline travel study. Information sharing and flexibility were measured via Noordewier *et al*. (1990) Scale. The measurement scale for customer perceived value was Hansen *et al*. (2008) scale that used in their study. Word-of-mouth was measured via adapted version of Kumar *et al*. (1994) and Zeithaml *et al*. (1996) scale and used by Hansen *et al*. (2008). The customer loyalty items from the Sirdeshmukh *et al*. (2002) airline study, which include both attitudinal and behavioral loyalty components, are used.

Hence the questionnaire included 20 items to measure the six dimensions on a Likert scale and ranged from "strongly disagree" (1) to "strongly agree" (5).

RESULTS

Structural Equation Modeling (SEM) with Lisrel software was used for the data analysis. SEM is a comprehensive statistical approach for testing hypotheses about relations between observed and latent variables. It combines features of factor analysis and multiple regressions for studying both the measurement and the structural properties of theoretical models. SEM is formally defined by two sets of linear equations called the inner model and the outer model. The inner model specifies the relationships between unobserved or latent variables and the outer model specifies the relationships between latent variables and their associated observed or manifest variables (Turkyilmaz and Ozkan, 2007). Finding of SEM imply good fitness of model (RMSEA = 0.041, CFI = 0.98, NFI = 0.96, NNFI = 0.97).

Result from SEM also support research hypotheses (Table 2). In relation to H1 proposed the effect of corporate reputation on customer perceived value, standardized loading was 0.57 and reported t-value was 6.56 which based on those findings, H1 is supported. Company trust was another factor influencing customer perceived value in present study and result show that H2 was supported with standardized loading of 0.15 and t-value of 2.77; however that effect was slight. Standardized loading value for effect of information sharing on customer perceived value was 0.24 (t-value = 5.23) and based on it, H3 was supported. On the other hand, for H4, findings show that flexibility influence customer perceived value with standardized loading of 0.35 and t-value of 5.24. Thus H4 is supported.

In relation to customer perceived value consequences, which included WOM and customer loyalty, findings show that customer perceived value influences WOM and customer loyalty with standardized loading of 0.64 and 0.48 and t-value of 8.39 and 7.42 respectively. Consequently H5 and H6 are also supported.

Table 2: Results of hypotheses

Hypothesis	Standardized loading	t-value (p<0.05)
H1: Corporate reputation→CPV	0.57	6.56
H2: Company trust→CPV	0.15	2.77
H3: Information sharing→CPV	0.24	5.23
H4: Flexibility→CPV	0.35	5.24
H5: CPV→WOM	0.64	8.39
H6: CPV→Customer loyalty	0.48	7.42

DISCUSSION AND CONCLUSION

The present study addressed the effect of factor influencing on customer perceived value in business to business markets which these factor include corporate reputation, company trust, information sharing and flexibility on one hand and customer perceived value consequences e.g. word of mouth (WOM) and customer loyalty on the other. The results obtained from analyses are aligned with previous research e.g. Hansen *et al.* (2008) and Brodie *et al.* (2009).

Result show that customer perceived value is an essential factor in business to business marketing. In service marketing WOM and customer loyalty are among the effective marketing functions and firms are seeking to achieve those factors so that they can increase their share of customers. The present study showed that customer perceived value influences these factors and leads to a situation in which customer in addition to act as the firm voice among colleagues and other firms, also considers maintaining his/her interactions with firm, becomes more loyal to service provider and consequently free promotion is conducted in market and persistent relationships with customers is established along with marketing goals of firm.

In relation to factors influencing customer perceived value, corporate reputation has the most effect and flexibility is the second most important factor showing importance of relationship with customers in B2B market given their various demands. Thus it is recommended that firms pay attention to factors influencing customer perceived value so that they can be more effective in marketing. Service firm can enhance customer perceived value by increasing corporate reputation through such activities as improvement of provided performance, enhancement of service quality and promotion of their staff expertise and in this way they can hope to obtain customer loyalty on one hand and positive WOM on the other. Also firms should be able to offer required information on using services to customer and provide their expert services according to their various wants and demands, on the other hand. Firms can increase their flexibility and obtain more reputation as an innovative firm by creating innovations in their expert service based on customer wants.

Among limitation of the present study is that only one service industry was used as research basis and this has implications in relation to generalizability of the research results. On the other hand the present study was conducted just in one cross-section and overlooked the events occurred in firms e.g., providing new services and innovations. Thus it is recommended that future research examine concept of customer perceived value in other industries in B2B market and goods so that a more clear insight is obtained for this concept in B2B market. Also if future studies will be conducted by taking innovation and other positive and negative firm events over time in to consideration they can be very effective. On the other hand, also other factors, e.g. service quality and employee trust can be added to the model and a more complete model in relation to antecedents and consequences of customer perceived value in B2B market can be obtained.

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