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Niches at the Edges: Price-Value Tradeoff, Consumer Behavior, and Marketing Strategy

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Abstract:

Purpose – *The purpose of this paper is to examine how the perception of price-value tradeoff is related to overall satisfaction, purchase intention, word-of-mouth advertising, and actual repurchase behavior.*

Design/methodology/approach – *Data on subscribers and single ticket buyers of a major symphony orchestra in the Midwest are used to test the hypotheses.*

Findings – *The ANOVA results show significant differences across the three levels of price-value tradeoff in each of the response variables. Additional analyses of cross-tabulated data show that some of the bivariate relations conform to, as well as depart from, the rational consumer behavior model.*

Research limitations/implications – *Although the hypotheses are supported, bivariate relations examined in this study can mask or overstate true relations due to the omitted variables bias. Future research can explore reasons for favorable behaviors of consumers whose perception is that the value they receive is overpriced, and also for unfavorable behaviors of consumers whose perception is that the value they received is under-priced.*

Practical implications – *The different niches at the edges provide opportunities for marketers to fine-tune segmentation and marketing mix strategies. The use of standardized strategies for these niches with different perception and behavior linkages will yield suboptimal results.*

Originality/value – *While previous research has mostly focused on price-quality linkages, this study extends the body of research by examining the perception of price-value tradeoff and its relation to overall satisfaction, purchase intention, word-of-mouth advertising, and actual repurchase behavior. This adds to our understanding of post consumption behavior, showing how consumers respond to the perception of price-value tradeoff.*

Although the theoretical significance of scholarly research in marketing is well established in the academia, marketing executives sometimes feel that the elaborate conceptual linkages presented in academic studies fail to provide meaningful guidance in strategic decision making. Managers also express difficulty in relating findings from these studies to routine consumer behavior and thus shy away from using them. McCole (2004) points to this situation

and suggests that there exists a sizable gap between the worldviews of academics and practitioners. And Brennen (2004, p. 492), in his editorial comments in a special issue that explored the nature of the academic-practitioner divide, notes that “a consensus seems to be emerging that much, or perhaps most, of work done by academics is of limited relevance to practitioners.”

These concerns have spilled into the academia where marketing and management scholars continue to debate the tradeoffs between rigor and relevance of academic research. The debate continues, and the issue of how to select research questions as well as how to answer them is far from resolved. But there has emerged a new orientation in the discipline that focuses more on discovering parsimonious relations between constructs than on developing grand models of consumer behavior. Major scholarly journals have also taken the lead in requiring authors to delineate the strategic implications of the findings of their research. Changes are also evident in the corporate world, where access to large data bases has led to data mining and data-based marketing strategies and has motivated the search for customer segments whose needs and wants can be satisfied with differentiated value propositions.

In light of the above considerations, this paper takes a more applied approach to examining relations between the perception of price-value tradeoff and four aspects of consumer behavior, overall satisfaction, purchase intention, word-of-mouth advertising, and actual repurchase behavior. With respect to these bivariate relations, the paper also comments on the rational consumer behavior model and discusses the strategic implications of the findings. The underlying premise of this paper is that the delineations of bivariate relations can reveal meaningful insights that can prove strategically valuable for segmenting markets, especially at the edges, and developing value enhancing offerings. The proposed relations are tested on data collected by a symphony orchestra in a large Midwestern city.

Introduction

As one of the marketing mix variables, price plays an important role in influencing consumers' perception of products, increasing demand, attracting customers, and promoting brand loyalty, among other things. Research in marketing shows that the perception of reference price (price considered reasonable or fair by consumers) can be altered by changing how price is presented to consumers (Morris and Morris, 1990; Simonson and Tversky, 1992). If, for example, a higher priced product is added to the top of the product line, buyers' reference price increases. Research also shows that consumers respond differently to price discounts. For

example, when consumers are presented with higher discounts on both name brands and unknown brands, they are more likely to buy name brands than unknown brands (Moore and Olshavsky, 1989; Gupta and Cooper, 1992), because in the case of name brands they link reduced price with getting a better deal for their money, and in the case of unknown brands they link reduced price with doubtful quality.

Marketers have also found that demand and price are not always inversely related and that demand can be increased not only by lowering price but also by increasing it. For example, Stella Artois, a regular beer in Belgium, was successfully priced at a premium level in the US market to create the impression of luxury and exclusiveness (Beamish and Goerzen, 2000). Positive relations between price and demand have often been cited as evidence of consumers not always behaving according to the rational behavior model. Monroe (1973) and Skouras et al. (2005) point to the diversity of consumer behavior and suggest that consumers in some situations behave in accordance with the Marshallian assumption of rationality, but in others they do not.

Although price plays a role in influencing purchase behavior, consumers do not always remember the price they paid for a product. The difficulty in recalling the price paid, however, is compensated by the ability to form evaluative judgments. What this suggests is that while consumers cannot recall the exact price they paid for the product, they can easily indicate whether the product or service they bought was overpriced, under-priced, or just-priced for the value received. The perception of the price-value tradeoff and its relation to consumer behavior has not been adequately explored in the literature. This study attempts to fill this gap by looking at bivariate relations between the price-value tradeoff and four different aspects of consumer behavior, such as overall satisfaction, purchase intention, word-of-mouth advertising, and actual repurchase behavior. Furthermore, this study adds to the marketing literature by examining the above relations in the context of a service sector (Voss *et al.*, 1998) and by commenting on the generalizability of the rational consumer behavior model (Skouras et al., 2005).

Price-value tradeoff and consumer behavior

Price and value are closely related constructs. The former measures the monetary sacrifice consumers make to obtain a service, and the latter reflects a judgment of what they get from the service received. While the price paid for a service can be determined relatively easily, value has a personal and idiosyncratic component to it (Zeithaml, 1988). When consumers use the term value, they might mean different things. For example, they can associate value with

low price (Bishop, 1984), with the quality of the product (Dodds and Monroe, 1985), and with what they get for what they give (Sawyer and Dickson, 1984). Zeithaml (1988) integrates these different views of value in the concept of perceived value, which is an overall evaluation of “what is received for what is given” (p. 14). The perceived value is represented as the tradeoff between the price paid and value received, reflecting the give and get component of a transaction.

The examination of the price-value tradeoff perception and its relation to consumer behavior builds on the research on price-quality link. Consumers have been shown to use price as a cue to judge the quality of a product or service. Quality, in this case, is intrinsic to the product, and consumers use price, among other factors, to form evaluative judgments about these intrinsic characteristics. The influence of price in this evaluation, however, becomes pronounced when other product-related cues are absent (Kardes *et al.*, 2004), a phenomenon known as price-quality cue utilization. In a recent study, Estelami (2008) found the existence of price-quality cue for financial services and suggested the importance of understanding the link for the optimal positioning of the brand. Price-value tradeoff, on the other hand, looks at post-consumption evaluation of a service encounter or product use. The judgment is formed after the use of the service or product and reflects the value of the service to consumers in terms of the price they paid. In this evaluation, the quality of the product or service plays a significant role (Cronin *et al.*, 2000).

As consumers do not easily recall the exact price they paid for a product, memory distortion is smaller when consumers are asked to evaluate price (expensive or inexpensive) rather than to remember the exact price (Xia, 2005). Consumers can thus easily indicate whether the service received was under-priced, just-priced, or overpriced for the value received. This study examines in the next section how the perception of the price-value tradeoff (under-priced, just-priced, and overpriced for the value received) relates to overall satisfaction, purchase intention, word-of-mouth advertising, and actual repurchase behavior.

Price-value tradeoff and overall satisfaction

Overall satisfaction is a post-consumption emotive state that is influenced by the discrepancy between the actual and expected value of the product or service received (Anderson, 1994). Research shows that when consumers judge the value of a product, they bring into consideration the price they paid for the product (Zeithaml, 1988). In judging the level of satisfaction, the rational consumer behavior model suggests that consumers who think that

the service they received was under-priced for the value received will exhibit higher levels of satisfaction than consumers who think that the service was just-priced; and the satisfaction of the just-priced group will be higher than the satisfaction of the overpriced for the value received group. We, therefore, propose the following:

H1. Overall satisfaction will vary across the under-priced, just-priced, and overpriced for the value received groups.

Price-value tradeoff and purchase intention

Purchase intention reveals a predisposition to make a purchase in the future. There is a positive relation between the perception of value and willingness to buy (Dodds *et al.*, 1991). Consumers who think that the service was underpriced for the value received will show a higher level of purchase intention. Similarly, intention to purchase will be higher among people who think that the price was just for the value received, compared to people who thought that the price was high for the value received. We, therefore, propose the following:

H2. Purchase intention will vary across the under-priced, just-priced, and overpriced for the value received groups.

Price-value tradeoff and word-of-mouth advertising

Word-of-mouth advertising is an endorsement of a product or service. Consumers who feel that they got value for their money are more likely to recommend the service to their friends and family, just as consumers are more likely to complain if they feel that the value they received was overpriced. The perception of price unfairness may also induce negative emotions in consumers (Xia *et al.*, 2004). The disposition to recommend something and engage in word-of-mouth advertising will thus be stronger in consumers who think that they got value for the price paid. In contrast, consumers who think that the value they received was overpriced would be less likely to engage in word-of-mouth advertising. We, therefore, propose the following:

H3. Word-of-mouth advertising will vary across the under-priced, just-priced, and overpriced for the value received groups.

Price-value tradeoff and actual repurchase

Businesses succeed by motivating actual repurchase behavior. The rational behavior model suggests that consumers who perceive that the price they paid was under-priced or just-priced for the value received will be more likely to repurchase. Likewise, consumers will be reluctant to repurchase if they think that their service experience was overpriced for the value

received. Consumers' perception of price-value tradeoff will thus influence actual repurchase behavior. We, therefore, propose the following:

H4. Actual repurchase will vary across the under-priced, just-priced, and overpriced for the value received groups.

Method

The above hypotheses were tested on data collected through a survey questionnaire. A committee of business professionals, academics, and orchestra managers collaborated on developing the questionnaire. Discussions about wording and content led to several iterations of the questionnaire before the final version was accepted and mailed in two waves to 5,349 subscribers and single ticket buyers of a major symphony orchestra in the Midwest. The total number of responses received was 3,087.

Demographic data indicated diverse backgrounds of respondents. With respect to age, the percentage distribution of respondents was as follows: under 25 (0.6 percent), 25-34 (3.9 percent), 35-49 (19 percent), 50-54 (12 percent), 55-64 (27 percent), 65-74 (25 percent), 75-84 (11 percent), and over 85 (2 percent). With respect to education, the percentage distribution was as follows: high school (3 percent), some college (13 percent), associate degree (3 percent), bachelors (35 percent), masters (33 percent), and MD/PhD (13 percent). With respect to income in thousands, the percentage distribution was as follows: under \$30 (9 percent), \$30-49 (19 percent), \$50-69 (19 percent), \$70-89 (16 percent), \$90-124 (16 percent), \$125-149 (6 percent), \$150-199 (7 percent), \$200-249 (2 percent), and over \$250 (6 percent).

Two types of analyses were conducted, ANOVA to test the hypotheses, and cross-tabulations to examine consumer behavior at the edges of the market.

Variables

Data on price-value tradeoff was obtained by asking respondents to indicate whether the price they paid for the symphony was overpriced, just-priced, or under-priced for the value received. The coding of these three categories was as follows: overpriced (-1), just-priced (0), and under-priced (1). Overall satisfaction data was obtained by asking respondents to indicate their level of overall satisfaction with the symphony on a nine-point Likert scale, which ranged from very dissatisfied (1) to very satisfied (9). The nine-point scale was reduced to a five-point scale to minimize the empty cells problem in the cross-tabulations analysis. Purchase intention data was obtained by asking respondents how likely they were to purchase tickets on a five-

point Likert scale, ranging from definitely will not, probably not, might or might not, probably will, and definitely will. Data on word-of-mouth advertising was obtained by asking respondents to indicate how likely they were to recommend the symphony to people they know on a five-point Likert scale, ranging from definitely would not, probably would not, might or might not, probably would, and definitely would. Actual repurchase was recorded by registering whether or not the respondents actually repurchased symphony tickets.

Results

We first present the ANOVA results. Following this, we discuss the findings from cross-tabulations. For both analyses, a pairwise deletion procedure was followed. The ANOVA results show significant differences in means in each of the four aspects of consumer behavior – overall satisfaction, purchase intention, word-of-mouth advertising, and actual repurchase behavior (see Table I). For overall satisfaction ($F = 83:790$, $df = 2$; 2972, p -value = 0:000), for purchase intention ($F = 42.413$, $df = 2$; 2977, p -value = 0:000), for word-of-mouth advertising ($F = 30:382$, $df = 2$; 2967, p -value = 0:000), and for actual repurchase ($F = 11:148$, $df = 2$; 2999, p -value = 0:000).

While the results above support the hypotheses presented in the paper, more detailed information about consumer behavior can be gleaned from cross-tabulated data. In discussing findings from the cross-tabulations, we first focus on relations at the edges (the under-priced for the value received group and the over-priced for the value received group) and then on relations both within and between the three groups to comment on the rational consumer behavior model.

Although the bivariate links presented in this study provide useful insights into one-on-one relations between price-value tradeoff and four different aspects of consumer behavior, two limitations should be noted. First, bivariate relations can mask or overstate true relations due to omitted variables bias. Second, bivariate relations do not show the linkages that connect the variables in a nomological network. With these limitations in mind, we discuss the results.

Price-value tradeoff and satisfaction

In the under-priced for the value received group, 87.6 percent were very satisfied versus 53.3 percent in the over-priced for the value received group. However, the unexpected finding was that a lower percentage of people in the under-priced group, 12.4 percent, were in the mostly satisfied category versus 31.1 percent in the over-priced group. Overall χ^2 with 8 d.f. was 188.5; $p = 0:000$. See Table II for other results.

Price-value tradeoff and purchase intention

Price-value tradeoff and purchase intention showed the following results. In the under-priced group 79.1 percent, versus 37.8 percent in the over-priced group, indicated that they definitely would repurchase the ticket. Also, as expected, 9.5 percent in the over-priced group, versus 0.8 percent in the under-priced group, indicated that they would definitely not repurchase the ticket. However, the unexpected result was that only 16.3 percent of the respondents in the under-priced group, versus 32.4 percent in the over-priced group, said that they probably would purchase the ticket. Overall χ^2 with 8 d.f. was 107; $p = 0:000$. See Table III for other results.

Price-value tradeoff and word-of-mouth advertising

Price-value tradeoff and the desire to engage in word-of-mouth advertising yielded the following results. In the underpriced group, 92.9 percent indicated that they would definitely recommend the symphony to their friends, versus 55.9 percent in the overpriced group. However, the unexpected result was that 5.5 percent in the under-priced group, versus 35.2 percent in the over-priced group, said that they probably would engage in word-of-mouth advertising. Overall χ^2 with 8 d.f. was 81.006; $p = 0:000$. See Table IV for other results.

Price-value tradeoff and actual repurchase

Findings show that in the under-priced group 85.3 percent actually repurchased the ticket, versus 64.7 percent in the over-priced group. Furthermore, as expected, in the under-priced group 14.7 percent did not repurchase the ticket versus 35.3 percent in the over-priced group. The unexpected result, however, was that within the over-priced group, more people actually repurchased the ticket than not, 64.7 percent versus 35.3 percent. Overall χ^2 with 2 d.f. was 22.153; $p = 0:000$. See Table V for other results.

Managerial implications

Findings support the proposed hypotheses that the perception of price-value tradeoff is related to overall consumer satisfaction, purchase intention, word-of-mouth advertising, and actual repurchase behavior. The concept of price-value tradeoff is strategically relevant because consumers have choices, and understanding how they respond to such tradeoffs will be valuable in crafting marketing strategies for niches at the edges.

The under-priced for value received group had the highest percentage of customers who

were very satisfied and definitely intended to repurchase and engage in word-of-mouth advertising. This group also had the highest percentage of actual repurchase. These consumers, as expected, behaved according to the rational consumer model. However, for the majority of consumers in this group, the marketing implications relate to the issue of adjusting the tradeoff. The managerial question is, should the perception of price-value tradeoff of this niche be brought more in line with the just-priced group, and, if yes, how? Looking at the option of increasing price for this group, several comments can be made. Existing research shows that consumers' responses to price increase are shaped by what they learn about firms and what firms say about their motives for raising prices (Campbell, 1999). When the decision to raise the price is made, marketing communications can be used to manage consumers' inference of motive and, thus, their perception of fairness about the price increase (Campbell, 1999). The other issue for this niche of 4.3 percent of total respondents relates to people who did not repurchase the tickets, even though their perception of the price-value tradeoff was positive. From a marketing perspective, what is important is that these non-buyers already hold a favorable view of the service encounter, which can be leveraged to bring them back.

The just priced for value received niche constitutes the core group of consumers. This group was the largest of the three with over 90 percent of the total respondents, who supported the rational behavior model. They were satisfied with the service, expressed favorable intention to repurchase, showed willingness to engage in word-of-mouth advertising, and actually repurchased tickets. However, even within this group, 20.5 percent of consumers did not repurchase tickets. This is a large percentage of consumers for any firm. With respect to bringing them back, one of the advantages the firm has is that this niche already has a favorable price-value tradeoff perception, which can be exploited with reminder oriented marketing communications. Furthermore, managers also need to develop an effective customer acquisition strategy to compensate for consumers who did not repurchase.

The over-priced for value received group exhibited unexpected behavior and, to some degree, supported the notion that consumers do not always behave according to the rational behavior model. Although consumers in this group thought that the value they received was overpriced, they still showed favorable responses in terms of overall satisfaction, purchase intention, word-of-mouth advertising, and repurchase behavior. With their repurchase behavior, they exhibited what can be called the Starbucks factor. Most consumers view Starbucks coffees as overpriced; but they continue to buy the product, not because there are no other options, but because they like the store environment, the product, and the service. Starbucks has created an

image that resonates with people. However, considering the perception of the overpriced for the value received niche, it can be assumed that these customers will be most susceptible to switching to competing services. The recommended strategy to retain these customers would be to increase the value of the service encounter, focusing on non-price elements.

Conclusions

Findings from this study indicate complex relations between price-value tradeoff and overall satisfaction, purchase intention, word-of-mouth advertising, and actual repurchase. Although the overall findings support the rational behavior model, findings for the niches at the edges challenge the assumption commonly held about price-value tradeoff and consumer behavior. These niches constitute specific segments and challenge the practice of crafting a standardized strategy for different consumer groups within the same product or service market. As results from this study show, the one-size-fits-all strategy will result in sub-optimizing returns on marketing investments.

Marketers have traditionally focused on a core group of consumers, who are satisfied with the exchange equation, and, for most firms, this core group constitutes the majority of customers. Focusing on this group pays off because of its size and favorable response to marketing offerings. However, as shown in this study, there are niches at the edges that not only see the exchange equation differently but also behave differently. These niches form specific segments for which firms will need to adapt marketing strategies. The understanding of what is happening in these niches will provide firms with opportunities to improve their competitive position.

As competitive pressures on firms increase due to the variety of choices available to consumers, the significance of understanding the different niches at the edges within a market has increased. These groups behave differently from the core group, partly because they depart from the general economic assumption of rationality. Although the percentage of these customers may vary for different businesses, the real challenge for managers is determining how to treat these consumers who buy and use the same service but have different price-value tradeoff perceptions and behavioral dispositions.

Many substantive issues arise from this research; exploring them would add to the body of research on pricing strategy and consumer behavior. Future research can study why people repurchase products and services even when they perceive that the value they received was overpriced. If consumers think that they overpaid and yet repurchase the product, there must be

cognitive, emotional, and contextual factors that play a role in influencing this behavior. These factors can be examined in the context of the price-value tradeoff. Another promising area of research is examining how much of price-value tradeoff can be changed for the under-priced for the value received consumers before they decide not to buy the service. Specifically, to what level can the price be raised before the perception of price-value tradeoff affects behavior? What is the price threshold for consumers before it affects their tradeoff evaluation and behavior? Another promising area of research is determining the effects of price-value tradeoff on consumer behavior for different types of products and services, such as necessities versus luxury versus discretionary goods.

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Notes

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Appendix
Table 1
ANOVA

	F-value	Significance
Overall satisfaction	F(2, 2972) = 83.790	0.000
Purchase intention	F(2, 2977) = 42.413	0.000
WOM advertising	F(2, 2967) = 30.382	0.000
Repurchase	F(2, 2999) = 11.148	0.000

Table 2
Price-value tradeoff and satisfaction

		Price-value tradeoff							
		Under-priced for value received		Just-priced for value received		Over-priced for value received		Total	
		<i>n</i>	%	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%
Overall satisfaction	Very dissatisfied	0	0.0	6	0.2	2	1.4	8	0.3
	Mostly dissatisfied	0	0.0	11	0.4	12	8.1	23	0.8
	Neither	0	0.0	30	1.1	9	6.1	39	1.3
	Mostly satisfied	16	12.4	378	14.0	46	31.1	440	14.8
	Very satisfied	113	87.6	2,273	84.2	79	53.4	2,465	82.9
	Total	129	100.0	2,698	100.0	148	100.0	2975	100.0

Table 3
Price-value tradeoff and purchase intention

		Price-value tradeoff							
		Under-priced for value received		Just-priced for value received		Over-priced for value received		Total	
		<i>n</i>	%	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%
Purchase intention	Definitely not	1	0.8	32	1.2	14	9.5	47	1.6
	Probably not	2	1.6	91	3.4	9	6.1	102	3.4
	Might/might not	3	2.3	197	7.3	21	14.2	221	7.4
	Probably	21	16.3	676	25.0	48	32.4	745	25.0
	Definitely	102	79.1	1,707	63.2	56	37.8	1,865	62.6
	Total	129	100.0	2,703	100.0	148	100.0	2,980	100.0

Table IV
Price-value tradeoff and word-of-mouth advertising

		Price-value tradeoff							
		Under-priced for value received		Just-priced for value received		Over-priced for value received		Total	
		<i>n</i>	%	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%
WOM advertising	Definitely not	0	0.0	1	0.0	0	0.0	1	0.0
	Probably not	0	0.0	15	0.6	0	0.0	15	0.5
	Might/might not	2	1.6	53	2.0	13	9.0	68	2.3
	Probably	7	5.5	463	17.2	51	35.2	521	17.5
	Definitely	118	92.9	2,166	80.3	81	55.9	2,365	79.6
	Total	127	100.0	2,698	100.0	145	100.0	2,970	100.0

Table V
Price-value tradeoff and actual repurchase

		Price-value tradeoff							
		Under-priced for value received		Just-priced for value received		Over-priced for value received		Total	
		<i>n</i>	%	<i>n</i>	%	<i>n</i>	%	<i>n</i>	%
Repurchase	No	19	14.7	557	20.5	53	35.3	629	21.0
	Yes	110	85.3	2,166	79.5	97	64.7	2,373	79.0
	Total	129	100.0	2,2723	100.0	150	100.0	3,002	100.0