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## **Is Being Good Better Than Being Cheap, Or Is Being Cheap Better Than Being Good?**

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**ABSTRACT** - An assumption in the literature on defensive customer retention strategies is that customers who receive poor service quality from their current supplier are more inclined to switch to an attacking supplier. However, what to communicate to trigger switching from existing supplier to a new, previously unknown supplier is less known in this literature. This paper investigates how attacking firms can design persuasive advertising messages aiming to capture competitors' customers. In a 2 x 2 factorial experiment we find that economic advertising appeals are more persuasive than appeals stressing service quality for subjects currently receiving poor service quality. For customers who perceived service quality to be satisfactory, there was no difference in persuasiveness between the different appeals.

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# Is Being Good Better Than Being Cheap, or is Being Cheap Better Than Being Good?

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## ABSTRACT

An assumption in the literature on defensive customer retention strategies is that customers who receive poor service quality from their current supplier are more inclined to switch to an attacking supplier. However, what to communicate to trigger switching from existing supplier to a new, previously unknown supplier is less known in this literature. This paper investigates how attacking firms can design persuasive advertising messages aiming to capture competitors' customers. In a 2 x 2 factorial experiment we find that economic advertising appeals are more persuasive than appeals stressing service quality for subjects currently receiving poor service quality. For customers who perceived service quality to be satisfactory, there was no difference in persuasiveness between the different appeals.

## INTRODUCTION

In a wide range of contemporary textbooks, journal publications and popular press discussions on service marketing, firms have been advised to focus on service quality, customer satisfaction, and customer loyalty. In other words, maintaining long-term relationships with customers has been a catchphrase over the last decades, and this defensive strategy towards improved economic performance (Anderson, Fornell, and Lehmann 1994; Fornell 1992) has proved significant merits to its credit. However, while firms strive to keep their current customers satisfied and loyal, this strategy has usually been accompanied by attempts to recruit new customers. For example, introducing services of enhanced sophistication to members of their frequent flyer programs has not necessarily reduced airline companies' quest for recruiting new customers by means of price reductions, new product developments (e.g. new destinations) and the like. Hence, service firm managers are often confronted with the riddle of combining defensive strategies aimed at keeping current customers satisfied and loyal, and offensive strategies directed at "stealing" customers from competitors. We acknowledge both these strategies as equally important, and as such, this paper attempts to delve into how a service firm can use basic knowledge about defensive strategies when initiating offensive marketing strategies in target markets. Stated differently, how can knowledge on the mechanisms working within the basic quality, satisfaction and loyalty models be used by attacking companies in designing advertising appeals to capture the customers of incumbent service providers? This is the center of attention in this research, and the subsequent paragraphs will outline our specific research questions.

When trying to retain customers, the quality of the service delivery has proved to be a major determinant of customer loyalty (Zeithaml, Berry and Parasuraman 1996). Hence, the dominant thinking is that customers who perceive the service to be of high quality, will be more inclined to stay with the service provider than customers who experience the opposite (Oliver 1997). However, due to the intangible nature of most services, two different customers might have completely different quality perceptions of the same service provider. To further complicate the issue, the same intangible nature of services might result in different objective quality levels because service quality differ among employees who provide the service, at different points in time, and the like. Accordingly,

variation in customers' perception of service quality might result from either an objective quality difference or from a subjectively perceived difference based on expectation diversity (Boulding et al. 1993). These basic assumptions explain why perceptions of service quality often vary within the customer group of one specific company. Customers who assess the quality of received services to be unsatisfactory should be more inclined to switch to another supplier, which is an assumption supported extensively in the literature (Fornell et al. 1996; Ping 1993; Selnes 1993; Yi 1990). Frequently, a motive needs to be triggered to affect behavior. In this case the question pertains to which appeals could trigger the motive to switch?

Firms who are initiating an offensive strategy aimed at recruiting customers presently served by competitors should intuitively aim for the dissatisfied customers. The assumption from the loyalty literature is that these are more prone to switch than the satisfied customers. The question, then, is what kind of message to send these customers? Drawing on a customer value perspective (Newman 1988), although in a simplified version, we argue that customers can either be told that higher service quality can be acquired at a price equal to the one paid today, or that the same level of quality might be received at a lower price. Stated differently, a persuasion attempt can draw on two fundamentally different kinds of arguments; being better or being cheaper.

## Being Better...

First, one might argue that if the reason some customers are dissatisfied is because of quality absence, then the message should focus on the quality dimensions of the service offered. So doing, several effects might be achieved. If the customer compares the quality he has received from the current supplier with the quality arguments communicated by the attacking firm, any gap in favor of the attacking firm may produce a situation of perceived inequity, thereby decreasing satisfaction even more and in so doing boost the intention to switch to the attacking supplier (Yi 1990). Moreover, if an attacking firm plays the service quality card, the message will hit the displeased consumer right in the heart of his source of dissatisfaction with the current supplier. In a relationship between a service provider and a customer, the customer's satisfaction level is based on an attitude-like post purchase evaluation (Mano and Oliver 1993). An important detail in this respect is that for a wide range of services the core offering is more or less standardized (e.g. hotel beds, airline seats, travel agent services), leading competition to be more or less centered around the extended offering (Zikmund and d'Amico 1996). Stated differently, competition places the additions in the spotlight, while the core offering is often more or less equal across firms. This implies that the quality of the core offering itself might often be viewed as a hygiene factor, while the extended (service) offering is what makes up motivation factors (Herzberg, Mausner and Snyderman 1959). Drawing on a multi-attribute attitude model (Lutz 1991), being informed about an alternative supplier's quality on important (extended product) attributes might alter the customer's attitudes in favor of this new supplier. Likewise, from a decision theory perspective (Bettman, Johnson and Payne 1991), arguments focusing on the attacking supplier's quality on attributes where the current relationship partner performs

poorly might result in the attacking firm being the one that stands out in a firm-by-firm comparison. Now the incumbent firm is not just facing a dissatisfied customer, but a dissatisfied customer aware of a better alternative. And probably worse—a customer with an increased intention to switch.

### Being Cheaper...

Second, a persuasive message can be rooted in purely economic arguments, thus trying to position one's own services as cheaper than those of the competitors. Economic arguments like low price is a competitive strategy that draws on the varying price consciousness, price sensitivity and economic well being of consumers (e.g. Lichtenstein, Ridgway and Netemeyer 1993). While the economic success for a low price strategy is contingent on a variety of issues like the firm's ability to develop a cost leadership (Porter 1985), the inherent consumer benefits related to low price is more straightforward. For example, given that service products hold equal quality levels, the less expensive one should generally be chosen over the more expensive ones (Edwards 1954). Hence, economic arguments should intuitively be tempting to a number of consumers. In addition to the attractiveness of economic arguments *per se*, the intangible nature of services also gives reasons to expect that customers will be influenced by price arguments. Services are an experience kind of product, and their quality can thus first be properly evaluated at the time of consumption (Lovell 1983). The smoothness of a hotel bed, the taste of a restaurant meal, or the social character of a bank employee–customer interaction cannot be appraised until the customer actually tries or purchases the service. This implies that up front evaluations to a large extent has to be based on beliefs and evaluations of more tangible facets of the service, of which price is the most explicit one. From a decision theory perspective we might argue that one of the few real diagnostic pieces of information a customer can receive about a formerly untried service is its price (Feldman and Lynch 1988). As such, the alternative supplier does not necessarily have to convince the consumer that the quality of the services offered is better than the ones currently received, as long as the price is lower.

Summing up, the preceding paragraphs have shown that the service quality literature gives little advice when it comes to how an attacking service brand should target the customers of incumbent service brands with advertising appeals. However, we have argued that judgments of service quality received from current supplier, might affect the extent to which appeals from attacking brands trigger motivation to switch or not. We have presented arguments suggesting that the two main appeal strategies of being better or being cheaper draw on different explanatory assumptions. The service quality appeal might be effective because it positions itself as better than the service experience received from the current supplier, and thereby facilitates comparison. In other words, the appeal attempts to juxtapose itself on attributes of the extended service offering, a challenging task considering the customer's reduced ability to assess these attributes prior to experience (Zeithaml 1988). However, the economic appeal's effectiveness rests on the assumption that price is a more diagnostic piece of information in service delivery settings where the quality of the delivery is impossible to assess prior to switching. The following paragraphs presents an experiment undertaken to test these two options.

## METHODOLOGY

The purpose of the current study was to test the extent to which customers with different service quality judgments were differently motivated to switch from their current service supplier based on quality vs. economic advertising appeals from an attacking brand. Basically, this represented a 2 (ad-appeal; economic vs. service

quality) x 2 (service quality: high vs. low) between subjects factorial design. Subjects were 113 undergraduate business school students who participated as part of a course requirement. The use of this subject-pool enabled us to efficiently assess their judgments of received service quality and expose them to advertising messages at different points in time. Setting and subjects were considered in conjunction. The context chosen was retail banking, and the attacking service firm was a hypothetical bank with a brand name set up for this study only. The group of students receives student loans from an official government office, a fixed amount at a regulated interest rate. As such, they are consumers with money to spend, and importantly, money to place in a bank. Additionally, all students would have bank accounts already, and they would all have some experience with a current bank-service provider. During the past decade a number of new actors have entered the retail bank market in question, and a several of these have targeted their services especially towards students. This implies that we could credibly announce that a new bank aiming directly at students was to be launched, thus providing a good cover for our manipulation.

### Manipulation and Measurement

The first key independent variable, *advertising appeal*, was manipulated through two advertisements. The service quality oriented appeal offered "your own personal adviser to assist you in everything related to personal finance", "We will work hard to adapt to your personal needs", "Membership with Gold-card status in our Key-Customer Program", etc. The focus was intentionally service-relation oriented, and nothing was said about economic benefits. In the economic appeal version, statements included "The student's first choice, and the first bank in the market with price-guarantee", "PC-purchase financing with 0% APR, two year down payment", etc. Besides from argument type, the two ads were completely identical in all other respects (i.e. colors, fonts, pictures, size, etc) and they were both in the format of a full screen sized Internet advertisement.

*Service quality* was measured with reference to the subjects' current bank-relationship. A total of 6 Likert-type items adapted from the Servqual-instrument were used to tap this construct (Zeithaml and Bitner 2003). Examples on items are "Employees in your bank understand your specific needs" and "Employees in your bank are consistently courteous with you". A confirmatory factor analysis was employed to test the unidimensionality of the service quality scale. A one-factor solution was attained, with factor loadings varying from 0.735 to 0.872. The eigenvalue for the first factor was 4.25, and 70.8 % percent of the variance was explained. The 6 items were collapsed into a summated rating scale with Chronbach's Alpha=0.9. We thus believe the validity and reliability of the service quality measure is quite satisfactory. Next, the summated rating scale was dichotomized based on a median split (median=3,67), thus forming one high and one low service quality group.

The measure on Intention to switch to the attacking retail bank was adapted from the behavioral intentions measures offered by Zeithaml, Berry and Parasuraman (1996), and read "When you get the opportunity to switch from your current retail bank and to this new bank, how likely do you think it is that you will switch to this new bank?" Both the service quality scale and the behavioral intention item were 5-point measures, with anchors "Totally agree/Totally disagree" and "Not likely at all/Extremely likely", respectively.

### Experimental Procedure

The study was completed in two sessions. First, students were randomly assigned to two groups, shown the cover story, and the

**TABLE 1**  
Service Quality x Ad Type Interaction

		Ad type	
		Economical	Serv.qual
Service quality	High	4.19 (1.77) n=26	4.37 (1.82) n=27
	Low	5.75 (1.64) n=32	4.42 (2.13) n=28

note: std.deviation in parentheses

advertising message (either the economic appeal or the service quality appeal). Subjects were exposed to the ad for 15 seconds. Pretests had proved this to be sufficient to read all message arguments at a moderate pace. Subjects then filled out a booklet consisting of a variety of demographic questions, advertisement ratings, and also indicated to what extent they intended to switch to the new bank, once launched. Finally, they answered questions pertaining to the perceived relevance of the messages, the cogency of the presented arguments, and evaluated the extent to which the theme of the advertisement was economical or service oriented, measures intended to serve as manipulation checks.

The second round of the study commenced two days later. As a part of another study, the students answered a standardized customer satisfaction index questionnaire (e.g. Johnson et al. 2001). The subjects were told to answer the survey with the currently used retail bank in mind. Items for service quality assessment were embedded in this questionnaire.

### Results

To assess the extent to which the advertisements were perceived as economical or service quality oriented, a one-way ANOVA was run on the item asking subjects to rate on a nine point scale the extent to which the theme of the ad was 1=economical, to 9=service quality. Subjects in the economical treatment condition rated the advertisement as significantly more economical ( $M=3.96$ ) than subjects in the service quality condition ( $M=5.8$ ), ( $F(1,110)=20.904$ ,  $p<.000$ ). A similar analysis was also run to assess the extent to which the two advertisements were perceived as equally cogent. Subjects in the economical treatment condition perceived their advertisement to be more cogent ( $M=5.38$ ) than those in the service quality condition ( $M=4.75$ ), ( $F(1,110)=3.47$ ,  $p=.065$ ), indicating that there could be a chance that the economically oriented advertisement by nature was more convincing. Finally, it could also be the case that the two ads were seen as unequally relevant to the subjects. A one-way ANOVA indicated that subjects in the economical treatment condition perceived the advertisement slightly more relevant ( $M=5.81$ ) than those in the service quality condition ( $M=5.13$ ), ( $F(1,110)=3.014$ ,  $p=.085$ ).

### Intention to Switch to the Attacking Brand

The crucial test in this study is the extent to which subjects are motivated to switch to the attacking brand dependent on the service quality level of their current brand, and the advertising appeal of the attacking brand. A 2(service quality) x 2(ad type) between-subjects ANOVA on intention to switch yielded the results presented in

Table 1 and Figure 1. First, a main-effect of service quality was obtained as subjects in the low service quality condition was significantly more inclined to switch than subjects in the high service quality condition ( $M_{low\ serv.\ qual}=5.09$ , vs  $M_{high\ serv.\ qual}=4.28$ ,  $F(1,109)=5.38$ ,  $p=.022$ ). This a result that corresponds to our expectations, as the basic assumption is that low service quality leads to behavioral consequences unfavorable to the company (Zeithaml et al. 1996). There was no main-effect of ad-type, indicating that the small difference found in the manipulation check did not appear in the motivational capacity of the different advertisements.

Additionally, there is a significant interaction effect between service quality and ad-type ( $F(1,109)=4.635$ ,  $p=.034$ ). As indicated in Table 1 and Figure 1, the service quality argument scores equally regardless of the subjects' level of perceived service quality from their current supplier.

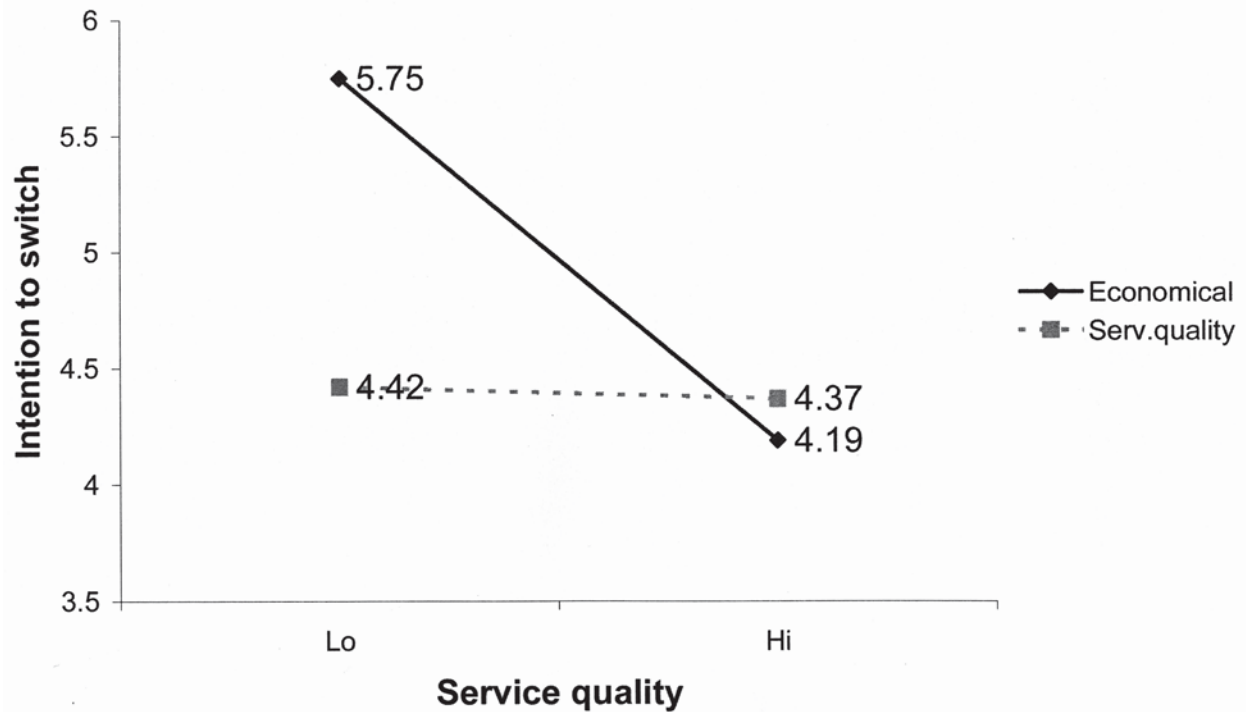
In contrast, the economical appeal scores significantly better among the customers who are dissatisfied with the service quality received from their current supplier. These subjects are not receptive to claims about improved service quality from the attacking supplier. In other words, the results indicated that addressing the causes of consumers' unhappiness when trying to seize them from a competitor is not a feasible strategy.

Related to subjects who rates the services received from the incumbent service supplier to be of high quality, the two ad-themes are equally (in)effective. Accordingly, the effect of ad-type on customers' intention to switch is dependent on the quality received from current supplier. Our results have shown that economically oriented advertising themes are not unequivocally more effective in an assumingly economically oriented business like retail banking.

### DISCUSSION AND IMPLICATIONS

The results of our experimental study hold some important implications for marketing theory and practice. In outlining the background for the study, we drew on extant satisfaction literature when advocating that persuasion attempts towards dissatisfied customer should aim at the basis for this displeasure (e.g. Oliver 1997; Newman 1988). In contrast, based on a rational decision making perspective (e.g. Edwards 1954) we also argued that price arguments would be a viable strategy due to the intangible nature of experience goods (Alba et al. 1997). Stated differently, information on tangibles will be most diagnostic, and information on aspects like price will therefore influence the decision outcome the most. The empirical findings supports this line of arguments. The idea that customers are unable to evaluate quality dimensions of services

**FIGURE 1**  
Ad Type x Service Quality Interaction



up front is supported by the interaction effect, which shows that economic arguments are the most persuasive ones when the target customers are dissatisfied.

The results of our study also have managerial implications for both offensive and defensive marketing strategies. First, independent of argument type, attacking firms will have an easier job in increasing their number of customers if they first and foremost concentrate on the competitors' less satisfied customers. Furthermore, for the attacking firm our results clearly indicate that recruiting competitors' customers will most successfully be achieved by persuading them by means of economic arguments. However, there are both pros and cons related to such a strategy. As for the pros, a newly introduced brand might find itself with a fast growing market share if competing on price. In this light, price arguments will be very efficient if market share is the firm's primary objective. However, the cons of such a strategy is that firms applying this strategy might both be viewed as a low price actor in the market, while also facing the challenge of keeping low prices on a long-term basis. While the practical examples on price strategies aimed at customer recruitment exists in vast numbers, the examples on how such strategies have constrained firms from reaching the economic performance yearned for is also substantial. Generally speaking, the major drawback of being tempted by price cuts in order to attract new customers is that competitors can easily copy this strategy. As such it does not help firms achieving a sustained competitive advantage (Barney 1991). Hence, we suggest that firms should take the results found in our study into consideration when designing offensive strategies, and contemplate what argument type to use in relation to the overall ambition of the firm, both in terms of market share, brand positioning and future performance.

Second, also for firms applying defensive strategies aimed at retaining their customers our results are of importance. Due to the aforementioned inherent intangibility of services, the level of service satisfaction held by customers will always vary to some degree within a customer group. When trying to improve the satisfaction, loyalty and thus persistence to persuasion among currently dissatisfied customers, our results might be viewed in favor of playing a price, or economic argument, card. We do not necessarily see this as a fruitful path to increased performance. While price arguments might be the most efficient strategy when trying to recruit customers, recall that the reason customers leave due to low service quality is not related to price, but to quality (Zeithaml et al. 1996). Hence, we suggest that firms facing such challenges should focus on improving the facets of service that are the direct antecedents to service failure, and have a long-term orientation on this course of action. Only through focus on customer needs and preferences will the firm be able to increase satisfaction among customers, and adhering to such a focus will be a more successful route to competitive advantage than being tempted by short-term price cuts (Barney 1991).

**Limitations and directions for future research**

This research presents some initial results indicating that a company that aims to sway customers from an incumbent brand should be attentive to the service quality perceived by the incumbent's customer when designing persuasive advertisements. Especially, it seems that customers receiving poor service quality, are not necessarily looking for alternative suppliers promising better service quality, but rather, a better deal in more economic terms. However, additional studies are needed to address methodological and

theoretical concerns. First, this study only used undergraduate students as sample. It might be argued that based on their relatively lower income-level, they should by nature be more receptive to economically oriented claims. Then again, we should expect so regardless of their level of perceived service quality. In the high service quality group, no differences in claims' persuasiveness were found, thereby questioning the extent to which an "economical bias" influenced our results. Additional studies could test our assumption in another sample, or vary the sample according to this potential biasing factor. Second, evaluations of service quality can be made with varying levels of confidence, depending on the extent to which consumers evaluate search, experience or credence services (e.g., Zeithaml 1988). Banking services are for many purposes search (you can seek out prices prior to adoption), experience (you will experience service level as the relationship develops), and credence (due to lack of expertise, you will have to trust that the bank does its best for you). However, our study did not allow analysis to check the extent to which these sources of performance information were differentially affecting the customers' evaluations or responses. Future research could address this within a bank setting, or utilize different service categories to provide a more explicit test. Third, we utilized a cumulative approach to the measurement of service quality (see e.g., Anderson, Fornell and Lehman 1994), as this cumulative approach has been argued to be more indicative for behavioural intentions. This did not allow us to manipulate service quality judgments. Conversely, service quality could be manipulated in future studies utilizing different service categories. Finally, we measured intention to switch two days prior to assessing level of service quality. Although our service quality measures were embedded as part of a large survey, covering other areas as well, it could be the case that students remembered their previous responses, and tuned their subsequent quality evaluations accordingly. We would assume that the same tuning-problem could surface if the experiment followed the opposite order, but this could also be explicitly manipulated in future studies. A final venue for future research could be to include measures of personality traits, customer expertise, and other situational variables to assess the robustness of our results.

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